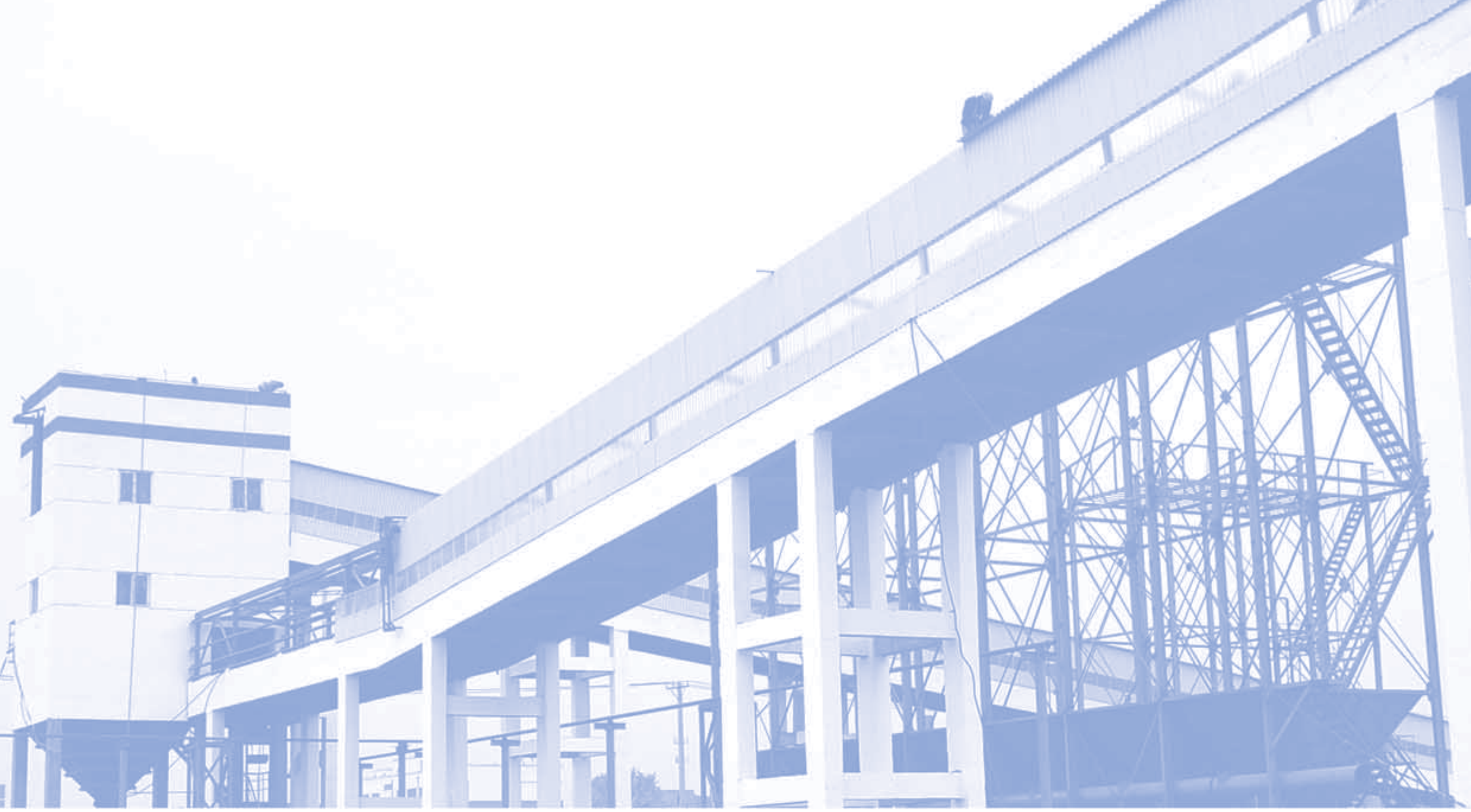
China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 362)

Annual Report 2010



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Yuen Tung
Ms. Chan Yuk Foebe
Mr. Peng Zhanrong
Mr. Chiau Che Kong
Mr. Wu Jianwei

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan
Mr. Yau Chung Hong
Mr. Tam Ching Ho
Dato' Wong Sin Just

COMPANY SECRETARY

Mr. Tsang Chiu Hung

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1101–12
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Ms. Chan Yuk Foebe
Mr. Chiau Che Kong

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants
29/F., Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

LEGAL ADVISER TO THE COMPANY

(as to Hong Kong law)
Jones Day
29/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
83 Des Voeux Road Central
Central
Hong Kong

Standard Chartered Bank
Shop A25–A27, Ground Floor
Kwai Chung Plaza
Hong Kong

Industrial And Commercial Bank of China
No. 155 Xisan Tiao Road
Mudanjiang City
Heilongjiang Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
P.O. Box 484, HSBC House
68 West Bay Road
Grand Cayman
Cayman Islands
KY1-1106

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

KEY DATES

Annual General Meeting:
20 December 2010
Financial year end date: 30 June

COMPANY WEBSITE:

www.chinazenith.com.hk

TELEPHONE NUMBER:

2845 3131

FACSIMILE NUMBER:

2845 3535

STOCK CODE

00362

Chairman's Statement

On behalf of China Zenith Chemical Group Limited (the "Company"), I present to all of our shareholders the business results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2010.

Business Review

For the year ended 30 June 2010, turnover of the Group amounted to approximately HK$1,381,342,000, representing an increase of 26.1% compared with last year. Profit attributable to shareholders amounted to approximately HK$217,618,000, representing an increase of 29.6% compared with last year.

During the financial year under review, the increase in turnover was primarily attributed by the increase in the sales volume of our coal-related chemical products which is partly offset by the decrease in capacities sold to third parties customers of the heat and power division. The healthy growth in profits attributable to shareholders was because the Group captured the chances on the sustained high growth in China's economy, and has made continued improvements in the Group's competitiveness.

Taking out the effect of the share option benefit expenses of approximately HK$10,199,000, the Group's normal administrative expenses for the year ended 30 June 2010 was approximately HK$101,199,000. The Group's normal administrative expenses for the year ended 30 June 2010 increased by approximately HK$22,431,000 compared with last year. During the year under review, more fund-raising activities, including open offer and placement of shares were launched. The resumption of vitamin C production facilities since last December and the eventful assemble of new calcium carbide production facilities in both Mudanjiang and Heihe also resulted in an increase in the group's administrative expenses. Such activities resulted in the rise in administrative expenses of the Hong Kong head office of approximately HK$4,121,000, bio-chemical product division of approximately HK$7,550,000 and calcium carbide of the coal-related chemical products division of approximately HK$10,335,000.

For the year ended 30 June 2010, the Group's other income amounted to approximately HK$110,333,000, representing an increase of 15.4% compared with that of last year. This was caused by both the increase in government grants and subsidies and the increase in the recognition of construction income of installation of pipe for steam customers. The government grants and subsidies represented the result of refund of taxes and the incentive for capital expenditure and the related bank interest expense incurred on environmental protection in the People's Republic of China (the "PRC") amounted to approximately HK$95,477,000 (2009: HK$89,769,000). In addition, the recognition of construction income of installation of pipe for steam customers amounted to approximately HK$11,437,000 (2009: HK$857,000).

Coal related chemical products division

During the year under review, the Group faced a challenging but exciting external operating environment. The PRC Central Government was able to take decisive action in pushing through a series of measures to boost the economy by stimulating domestic demand and accelerating the infrastructure projects. These measures enabled the Chinese economy to pick up quickly, as well as to provide new business opportunities for our downstream customers.

The demand from our downstream customers recovered since the third quarter of 2009 to the end of the current financial year. The coal-related chemical products manufactured by our production lines are able to continue its cost competitiveness over our rivals which adopt a production method using petroleum-related chemical raw materials. Nevertheless, the profit margin was worse off since the Group faced an increase in the price of calcium carbide, which is the major raw material of the Group.

Business Review (continued)

Polyvinyl – chloride ("PVC")

During the year under review, the turnover of the PVC business represents 53.5% of the turnover of the Group (after elimination of intra-group sales of approximately HK$1.68 million). Since the beginning of this financial year, the Group has adopted the strategy of encouraging all of the sales departments in the respective division to promote sales growth. The results now show that this strategy has been decisive and effective. The PVC production facility was running at full capacities since the fourth quarter of 2009 to meet the increase in demand.

Vinyl acetate

The turnover of the vinyl acetate business represents 39.3% of the turnover of the Group. The vinyl acetate business was the second largest operating activity of the Group. The vinyl acetate production facility was running at full capacities throughout the financial year to meet the recovered demand. Our sales team had made their efforts in maintaining a good relationship with the nationwide chemical conglomerates, namely PetroChina and Sinopec. During the year, these nationwide chemical conglomerates placed bulk tailor-made orders on liquid acetaldehyde, a by-product of vinyl acetate.

Bio-chemical products division

Thanks to the diligent and careful work of the technical team and the production team of the Bio-chemical products division. Mudanjiang Gaoke Bio-Chem Co. Ltd. ("Mudanjiang Gaoke") has successfully obtained the GMP (藥品生產質量管理規範) authentication certificate in May 2010. Currently, the vitamin C production facilities of Mudanjiang Gaoke are operating at full capacities. Mudanjiang Gaoke has applied for authentications for hygienic products to be exported into countries in Europe, the United States and Middle East.

Prospect

Coal-related chemical products division

Calcium carbide

The production of both vinyl acetate and PVC consumes considerable amount of calcium carbide as the major raw materials. Faced with the challenge from increasing cost and unsteady supply of calcium carbide and in view of the underlying strength of the Group's coal-related chemical businesses, the management of the Group is confident that the vertical integration in the production of calcium carbide will be the best solution for the challenges.

Such vision was confirmed since late 2007. For the first phase, the designed annual production capacities of calcium carbide are expected to be 100,000 tonnes. After completion of the whole project, the calcium carbide will be internally produced and will further lower the cost for the coal-related chemical products division. At the date of this report, the test run production of calcium carbide in Mudanjiang has been started. The management is confident that the calcium carbide production will be a success and will further reduce the cost of production of the Group's coal-related chemical products in the coming financial year.

On the other hand, the progress of the construction of our own calcium carbide production facilities in Heihe, the PRC was satisfactory. At the date of this report, the main contractor reported that the percentage of completion for installation of the 100,000 tonnes calcium carbide production equipment was around 70%.

Heat and power division

The increase in production capacities of vinyl acetate, PVC, and calcium carbide will in turn provide an opportunity for the heat and power division to expand. Plans have been formulated to build another two sets of coal-powered generation facilities to house the increased aforesaid demand. Provincial government approval has been obtained for such expansion. The Group has started to construct the first set of coal-powered generation facilities as the first phase expansion in October 2007.

Prospect (continued)

Heat and power division (continued)

In addition, application on the preferential tariff on electricity generated and supplied for new PVC and calcium carbide expansion project of the Group has been filed and a common view has been reached. Recently, the Group has filed a further application for preferential tariff to the State Grid Corporation of China. According to the application requirement, Mudanjiang Better Day Power Limited, a wholly-owned foreign enterprise, should be re-organized to become a wholly-owned subsidiary of Mudanjiang Daytech Chemical Co. Ltd. At the moment, the Group performs the necessary procedures to comply with the application requirement and plans to minimize any taxes or fees chargeable on the subject re-organization. The management is confident that the approval will be obtained when the above-mentioned re-organization is completed.

The aim of the expansion of our coal-powered generation facilities is to cover the demand of electricity consumed by the new calcium carbide production facilities. At the date of this report, the progress of constructing the first coal-powered electricity generating facilities is acceptable. The Group is presently liaising with banks for long-term bank financing for the project construction. The Group has renegotiated the payment schedules with the main contractor of the first set of coal-powered generation facilities. The subject expansion project is planned to be completed in phases according to the financial resources of the Group.

Future development

In May 2009, the PRC government imposed a more stringent entry requirement for coal-related chemical industries to avoid the problem of excess capacity. In particular, the PRC government will stop approving the pure expansion of certain coal-related projects' production capacity for three years. Such government policy will limit the future competition of the coal-related chemical market and will in turn benefit the existing manufacturers in the coal-related chemical industries.

The Group will certainly grow by expanding the production capacities of calcium carbide because the Group had obtained such approvals from the National Development and Reform Commission both in Mudanjiang and Heihe in the years 2007 and 2008 respectively. This will be the new milestones in the development of the Group. The Board is confident that the new business will contribute to a prosperous future and success of the Group and will benefit the shareholders as a whole.

To pursue continuous growth, the Group will make every effort to diversify its product mix, as well as enhance its capability in developing high value-added products and new applications through in-house research and development. Looking forward, the Group will make effort in capturing market opportunities and the Group's growth potential through suitable economy of scale of its production by expansion through vertical integration in acquiring or merging with other coal-related chemical businesses in the northeastern region of the PRC.

Gratitude

On behalf of the Company, I would like to take this opportunity to express my sincere gratitude to our members of the Board for their diligent guidance and leadership, our employees for their industrious work and contribution to the success of the Group and also to our friends and business associates from all sectors for their continuing trust and support.

By order of the Board

Chan Yuen Tung
Chairman

Hong Kong, 28 September 2010

Management Discussion and Analysis

BUSINESS ENVIRONMENT

With the initial effect of the PRC government's stimulus measures and economic revitalisation policies, as well as the central government's determination to maintain a GDP growth of 8%, the sign of recovery of the PRC economy became more apparent starting from the second half of 2009.

According to the statistics issued by the National Bureau of Statistics of China early this year, the GDP growth of the People's Republic of China ("the PRC") for the year 2009 is 8.7%, the construction sector of the PRC recorded a growth of 18.2% during year 2009 when compared to that of the year 2008. This was the sign of recovery of our downstream customers. During the financial year under review, the management reacted promptly to the changing market environment and was able to increase the production volume to meet the recovering demand from our downstream customers including: construction and building industries, manufacture of fibers and emulsifiers, and paper-making industries. However, the management was only able to transfer part of the increased cost of raw materials and cost of conversion to our customers. Thus, the margin of our products was squeezed when compared with that of the last financial year.

Coal-related chemical products division

Polyrinyl-chloride ("*PVC*")

During the financial year, the PVC segment recorded a revenue from external customers of approximately HK$739,526,000, representing an increase of 20.2% over that of approximately HK$615,208,000 last year. Segment profit of approximately HK$141,088,000 represented an increase of 6.3% over that of approximately HK$132,680,000 last year. The rise in turnover was mainly due to the increase in quantities being sold during the financial year. The increase in segment profit was primarily because the PVC raw materials sold was at a lower margin when compared with that of the last financial year, but this was compensated by an increase in the sales volume.

Vinyl acetate

During the financial year, revenue from external customers was approximately HK$543,145,000, representing an increase of 39.2% over that of approximately HK$390,245,000 last year. Segment profit was approximately HK$131,588,000, representing a decrease of 26.6% over that of approximately HK$103,972,000 last year. The boost in turnover was mainly due to the increase in quantities of liquid acetaldehyde, by-products of vinyl acetate being sold to nation-wide institutional customers during the financial year. The increase in segment profit was mainly because large orders for liquid acetaldehyde were received with specified concentration requested and urgent shipments.

Calcium carbide

The installation of production equipments for our own calcium carbide production facilities in Mudanjiang, the PRC, was completed near the end of the financial year under review. The test run of these new production facilities has been commenced in the third quarter of 2010.

During the year under review, calcium carbide segment has incurred segment loss of approximately HK$16,555,000, representing an increase of 181.5% over that of approximately HK$5,882,000 last year. The increased operating loss was mainly caused by the increase in amortisation charge of prepaid land lease payments and the administrative expenses incurred during the project construction phase for both of the new calcium carbide production facilities located in Mudanjiang and Heihe, the PRC.

Heat and power division

The heat and power division had secured a steady supply of steam, the key input to the production process of the Group. Moreover, the heat and power division enabled the Group to lower its cost of production and in turn maintain its competitive advantage in the region.

During the year under review, the heat and power segment recorded a turnover of approximately HK$59,120,000 (after elimination of intra-group sales of approximately HK$78,733,000), representing a decrease of 19.8% over that of approximately HK$73,713,000 (after elimination of intra group sales of approximately HK$37,632,000) last year.

Segment profit of approximately HK$19,782,000 was recorded during the year under review, representing a decrease of 38.3% over that of approximately HK$32,083,000 last year. There was a drop in the turnover because less heat capacity was sold to third party local manufacturing industries. On the other hand, more capacity of heat supply was consumed internally by the group companies in Mudanjiang.

Bio-chemical products division

During the financial year, the vitamin C, glucose and starch segment recorded a revenue from external customers of approximately HK$39,551,000, representing an increase of 140.5% over that of approximately HK$16,448,000 last year. Segment profit of approximately HK$8,665,000 was attained during the year under review while there was a segment loss of approximately HK$22,208,000 last year.

The newly refurbished production facilities for vitamin C started to make contribution to the segment. However, taking out the effect of the government grants of approximately HK$42,780,000, the current year's segment loss of HK$34,115,000 was attained. Nonetheless, the production of glucose and starch was still being suspended during the financial year under review. Inevitably, it was not possible to avoid the fixed factory overheads to keep the spare machinery in working condition.

PROSPECT

Coal-related chemical products division

Production of calcium carbide in Mudanjiang

The test run of the newly-built calcium carbide production facilities in Mudanjiang had been started in the third quarter of 2010. The production facilities are expected to operate at the annual designed production capacities of 100,000 tons by the end of 2010 or early 2011, depending on the progress of our major contractors for the construction of the production facilities in resolving detailed technical problem encountered during the trial run.

When the calcium carbide production facilities operate at the designed capacities, all the output can then be consumed internally by the PVC production. It will further lower the overall cost of production of PVC by capturing the additional value from producing calcium carbide internally.

Construction of calcium carbide production facilities in Heihe

On the other hand, the first phase of construction of our own calcium carbide production facilities in Heihe, the PRC, has commenced in June 2009. The installation of equipment was almost completed as at the date of this report. For the first phase, the designed annual production capacities of calcium carbide are expected to be 100,000 tons. Heihe City Local Government and the Electric Power Corporation of Heilongjiang Province have guaranteed that the calcium carbide production of the Group in Heihe will enjoy a lower electricity tariff for 10 years from 1 January 2008. It will be more cost-effective for the Group to produce calcium carbide which consumes a large amount of electricity.

The Group has already formulated the detailed plans to develop new production capacities of vinyl acetate and poly-vinyl alcohol, downstream chemical products of vinyl acetate in Heihe. The projects are expected to be completed by phases. The timetable of such development depends on the sources of financing of the Group.

Bio-chemical products division

Production of Vitamin C in Mudanjiang

The first phase refurbishment of vitamin C production facilities was completed in December 2009. Mudanjiang Gaoke had successfully resumed and transferred the drug formula of the vitamin C from the Mudanjiang Pharmaceutical Group Ltd., the state-owned enterprise which originally owned the registered drug formula of the vitamin C. The State Food and Drug Administration, PRC had appointed specialists to authenticate the manufacturing process, quality control policy set, hygiene condition of our refurbished vitamin C production facilities. The Good Manufacturing Practice ("GMP") certificate has been granted to Mudanjiang Gaoke in May 2010. Since then, the product produced by Mudanjiang Gaoke can be sold at a higher market price with market recognised GMP.

The refurbished vitamin C production facilities has been running at the designed capacity of 3,000 tons since May 2010. It is anticipated that the contribution from the biochemical segment will be much enhanced in the coming financial year.

At the date of this report, the progress of the above-mentioned expansion is satisfactory. With the management continuing to resolve issues with a sound decision and fast response, coupled with the unselfish dedication of the technical workforce, the test runs of Mudanjiang calcium carbide will be successful in the coming financial year.

The Board strongly believes that the PRC economy will recover in the year 2011. Both the operation of a vertically integrated product chain from calcium carbide to both PVC and vinyl acetate in the coal-related chemical business and the production of vitamin C in bio-chemical business will undoubtedly bring benefit to the shareholders as a whole.

Capital Structure, Liquidity and Financial Resources

Capital structure

The Group maintained a stable financial position throughout the financial year. The Group financed its operations and business development with internally generated resources and equity funding.

Equity funding

The net proceeds raised by the open offer by issuing 1,870,443,912 offer shares announced on 18 June 2009 were approximately HK$201 million. At the date of this report, the whole amount of the net proceeds raised by the open offer was fully utilised as working capital of the Group.

The net proceeds raised by the placing of 440,000,000 existing shares and subscription of 440,000,000 new shares of the Company by a substantial shareholder announced on 25 February 2010 was approximately HK$84 million. As at the date of this report, the whole amount of the net proceeds raised by the placing and subscription of shares was utilised by the Group as working capital of the Group.

The net proceeds raised by the placing of 440,000,000 warrants of the Company announced on 25 February 2010 to independent third parties at a warrant placing price of HK$0.005. The warrant exercise price was HK$0.285. The subscription rights attaching to the warrants may be exercised at any time during a period of 12 months commencing from the date immediately after the date of issue of the warrants. The warrant placing was completed on 9 March 2010. As at the date of this report, none of the warrants were exercised and the net proceeds of approximately HK$2 million from the warrant placing were fully utilised by the Group as working capital of the Group.

On 18 December 2009, the Company had announced to streamline the management and administration of the Company's PVC and its related Calcium Carbide business. In order to finance the operation and expansion of such business segment of the Company, the Company had been considering a possible spin-off of its PVC and related Calcium Carbide business by way of a separate listing of such business on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has engaged professionals to advise and assist in the possible spin-off. On 12 March 2010, the Company had submitted to the Stock Exchange a spin-off proposal pursuant to Practice Note 15 of the Listing Rules in relation to this proposed spin-off and the Company will provide an update as and when there is any significant further development on this matter.

As a result of weak market sentiment in June and July of 2010, and the delay in the completion schedule of our new Calcium Carbide plant, the management has been cautiously pushing ahead with the proposed spin-off of the group's PVC and related Calcium Carbide business, pending the publication of the consolidated financial reports of the Company for the full financial year ended 30 June 2010, the launch of the new Calcium Carbide plant that is currently undergoing trial runs and the confirmation of a better market condition for the spin-off.

During the year ended 30 June 2010, the Company raised funds by issuing 51,000,000 new shares through the exercise of share options by option holders. The net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$8 million. As at the date of this report, the whole amount was utilised as working capital of the Group.

Liquidity and Financial Ratios

As at 30 June 2010, the Group had total assets of approximately HK$3,760.2 million (2009: HK$3,056.0 million) which were financed by current liabilities of approximately HK$426.7 million (2009: HK$428.9 million), non-current liabilities of approximately HK$313.9 million (2009: HK$206.1 million), non-controlling interests of approximately HK$226.2 million (2009: HK$176.6 million) and shareholders' equity of approximately HK$2,793.5 million (2009: HK$2,244.4 million).

As at 30 June 2010, the current assets of the Group amounted to approximately HK$683.3 million (2009: HK$604.0 million) comprising inventories of approximately HK$103.6 million (2009: HK$62.3 million), trade receivables of approximately HK$452.4 million (2009: HK$435.2 million), prepayments, deposits and other receivables of approximately HK$105.3 million (2009: HK$86.9 million), financial assets at fair value through profit or loss of approximately HK$7.1 million (2009: HK$7.2 million), cash and cash equivalents of approximately HK$14.9 million (2009: HK$12.4 million). As at 30 June 2010, the Group's current ratio (current assets/ current liabilities), quick ratio ((current assets – inventory)/ current liabilities), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/ shareholders' equity) of the Group were approximately 1.6 (2009: 1.4), 1.3 (2009: 1.3), 19.7% (2009: 20.8%) and 26.5% (2009: 28.3%), respectively.

The financial health of the Group has attained at a satisfactory status throughout the year as indicated by the above figures.

Significant investment held by the Company

As at 30 June 2010, the Company did not have any significant investments except the financial assets at fair value through profit or loss of approximately HK$7.1 million, the Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$2.4 million for the financial year.

Charges on the Group's assets

As at 30 June 2010, bank loans of approximately HK$216.7 million are secured by charges over the Group's certain fixed assets and prepaid land lease payments.

Contingent liabilities

As at 30 June 2010, the Group did not have any significant contingent liabilities.

Foreign exchange exposure

Although most of the operations were carried out in the PRC in which transactions were denominated in RMB, the directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of RMB in recent years. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2010.

Number and Remuneration of Employees

As at 30 June 2010, the Group had 2,121 full time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance related commissions.

During the year under review, there were 205 million share options granted to senior management of the Hong Kong and PRC subsidiaries of the Company, out of which 51 million share options were exercised up to 30 June 2010. As at 30 June 2010, there were approximately 419.3 million share options outstanding. This comprises approximately 103.4 million share options with exercisable period up to 23 July 2010 at the exercise price of HK$0.485 per share, approximately 161.9 million share options with exercisable period up to 23 August 2010 at the exercise price of HK$0.35 per share and 154.0 million share options with exercisable period up to 20 August 2012 at the exercise price of HK$0.164 per share.

Corporate Governance Report

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

For the year ended 30 June 2010, the Group has applied the principles of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and complied with the code provisions of the CG Code.

This report describes the Group's corporate governance practices applied throughout the year.

The Board of Directors

Composition and Practices

The Board is responsible for overseeing the Group's strategic planning and development, and for determining the objectives, strategic and policies of the Group while delegating day-to-day operations of the Group to management. Besides, each member of the Board is expected to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

As at 30 June 2010, the Board comprises nine members including Mr. Chan Yuen Tung as the Chairman, Ms. Chan Yuk Foebe as the Chief Executive Officer, Mr. Peng Zhanrong, Mr. Chiau Che Kong, Mr. Wu Jianwei as executive directors and Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong, Mr. Tam Ching Ho and Dato' Wong Sin Just as independent non-executive directors. Details of their respective experience and qualification are included in the "Biographical Details of Directors and Senior Management" section of this annual report.

The Board has maintained a balance of skills and experience appropriate for the requirements of the businesses of the Group. Its composition represents a mixture of management, accounting and finance, marketing, manufacturing and procurement with comprehensive experience in and exposure to diversified businesses. It is the opinion of the directors that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interests of the Company.

Besides, to the best knowledge of the Company, there is no material relationship, whether financial, operational, family, etc, among members of the Board.

All independent non-executive directors comply with the guidelines on independence set out under Rule 3.13 of the Listing Rules and have not violated any provision thereunder throughout the year. Amongst them, Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong, Mr. Tam Ching Ho and Dato' Wong Sin Just have the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2) of the Listing Rules.

The Board Meeting – Full Directors Board meeting

During the year ended 30 June 2010, 10 Board meetings (including physical meetings and obtaining board consents through the circulation of written resolutions) were held for discussion of the Company's matters (other than those eight Board meetings listed in the next sections). The attendance of each director, on a named basis and by category, at Board meetings during the year is set out below:

Directors	**Number of meetings attended/Number of Board meetings held**
Executive directors	
Mr. Chan Yuen Tung *(Chairman)*	9/10
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	8/10
Mr. Peng Zhanrong	8/10
Mr. Chiau Che Kong	10/10
Mr. Wu Jianwei	8/10
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	9/10
Mr. Yau Chung Hong	9/10
Mr. Tam Ching Ho	8/10
Dato' Wong Sin Just	9/10

The Board of Directors (continued)

The Board Meeting – Executive Directors Board Meeting

In addition, during the year ended 30 June 2010, 13 executive directors Board meetings were held for dealing with the compliance of legal and administrative procedures, including:

- Issue of shares in respect of exercise of share options, open offer and placing of shares which had been previously approved by the Board.
- Internal corporate re-structuring and company secretarial matters.

To handle the above-mentioned matters, at least two executive directors of the Company and no independent non-executive directors are required to form a quorum.

The attendance of each director, on a named basis and by category, at such the Executive Directors Board meetings during the year is set out below:

Directors	Number of meetings attended/Number of Executive Directors Board meetings held
Executive directors	
Mr. Chan Yuen Tung *(Chairman)*	6/13
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	7/13
Mr. Peng Zhanrong	2/13
Mr. Chiau Che Kong	13/13
Mr. Wu Jianwei	0/13
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	n/a
Mr. Yau Chung Hong	n/a
Mr. Tam Ching Ho	n/a
Dato' Wong Sin Just	n/a

The Board Meeting – Committee Meeting

During the year ended 30 June 2010, five Board committee meetings were held. The attendance of each director, on a named basis and by category, at Board committee meetings during the year is set out below:

	Number of meetings attended/Number of meetings held		
Directors	Remuneration Committee	Audit Committee	Nomination Committee
Executive directors			
Mr. Chan Yuen Tung *(Chairman)*	1/1	–	1/1
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	–	–	–
Mr. Peng Zhanrong	–	–	–
Mr. Chiau Che Kong	–	–	1/1
Mr. Wu Jianwei	–	–	–
Independent non-executive directors			
Mr. Ma Wing Yun Bryan	1/1	3/3	1/1
Mr. Yau Chung Hong	1/1	3/3	1/1
Mr. Tam Ching Ho	0/1	3/3	1/1
Dato' Wong Sin Just	–	–	–

Pursuant to the Articles, meetings or extraordinary meetings of the Board may be convened by means of telephone or similar telecommunication facilities. Regular meetings of the Board were held during the year. Extra meetings were also held to cater for important matters arising from time to time. Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least three days before each meeting to keep the directors appraised of the latest developments and financial position of the Company to enable them to make informed decisions.

The Board of Directors (continued)

The Board Meeting – Committee Meeting (continued)

Minutes of Board/committee meetings would be kept by the company secretary of the Company and shall be open for inspection by directors. Where directors have a material or conflict of interests in any transaction discussed in the Board/committee meetings will not be dealt with by way of written resolutions unless clear declaration of interest is made by the relevant directors. The directors concerned could express views but would not be counted as part of the quorum and shall abstain from voting on the relevant resolutions.

In addition, to facilitate the decision-making process, the directors are free to have access to management for enquiries and to obtain further information, when required. The directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All directors have unrestricted access to the company secretary who is responsible for ensuring that the Board/committee procedures are complied with and for advising the Board/committee on compliance matters.

Appointment and Re-election of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession plan of directors.

All independent non-executive directors of the Company are appointed for a specific term. The term of office for both Mr. Ma Wing Yun Bryan and Mr. Yau Chung Hong is two years with effect from 1 April 2009. The term of office for Mr. Tam Ching Ho is two years with effect from 7 December 2009. The term of office for Dato' Wong Sin Just is two years with effect from 31 December 2008.

In accordance with the Articles, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The Board as a whole, with the nomination committee, is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession plan of directors and assessing the independence of independent non-executive directors.

Distinctive Roles of Chairman and Chief Executive Officer

The roles of chairman and chief executive officer are segregated in order to ensure a balance of power and authority in the management of the Board and the day-to-day management of the business. The Chairman of the Company is Mr. Chan Yuen Tung and the Chief Executive Officer is Ms. Chan Yuk Foebe.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors (the "Model Code"). Having made specific enquiry with all directors, the Company confirmed that all the directors have compiled with the code provisions set out in the Model Code throughout the year ended 30 June 2010.

Board Committees

The Board has established three Board committees, namely the remuneration committee ("Remuneration Committee"), the audit committee ("Audit Committee") and the nomination committee ("Nomination Committee") for overseeing particular aspects of affairs of the Company. These committees have been established with defined written terms of reference, as approved by the Board, which set out the committee's major duties.

The Board committees are provided with sufficient resources to discharge their duties and upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the expense of the Company.

Board Committees (continued)

Audit Committee

The Company set up the Audit Committee on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control systems. In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised on 21 October 2006 in terms substantially the same as the provisions set out in the CG Code.

The Audit Committee currently comprises three independent non-executive directors of the Company, namely, Mr. Ma Wing Yun Bryan *(Chairman of the Committee)*, Mr. Tam Ching Ho and Mr. Yau Chung Hong, all of whom are not involved in the day-to-day management of the Company.

The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process. The Audit Committee is also responsible for reviewing the auditor's appointment, the auditor's remuneration and any matters relating to the termination of, the appointment of and the resignation of the auditor. In addition, the Audit Committee also examines the effectiveness of the Company's internal controls, which involve regular reviews of the internal controls of various corporate structure and business processes on a continuous basis, and take into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realisation of its corporate objectives and strategies. The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditor and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, the Audit Committee has reviewed the audited financial statements of the Company for the year ended 30 June 2010 and the unaudited financial statements of the Company for the six months ended 31 December 2009.

During the year, the Audit Committee has met three times together with the chief financial officer of the Company. Moreover, the Audit Committee also met twice with the external auditor. Please refer to the table set out in the section "The Board Meeting – Committee Meeting" of this report for the attendance record of individual Audit Committee members.

The Audit Committee has recommended to the Board that RSM Nelson Wheeler, be nominated for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

Remuneration Committee

The Remuneration Committee was established on 1 July 2005 with specific written terms of reference in compliance with the code provisions in the CG Code. The Remuneration Committee, currently comprises three independent non-executive directors, namely Mr. Ma Wing Yun Bryan (Chairman of the Committee), Mr. Yau Chung Hong and Mr. Tam Ching Ho and one executive director, Mr. Chan Yuen Tung.

The Remuneration Committee is responsible for advising the Board on the remuneration policy and framework for all remuneration of the Company's directors and senior management, as well as reviewing and determining the remuneration packages of directors and senior management, and approving the compensation to directors and senior management on termination or dismissal. No director was involved in deciding his/her own remuneration.

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee has met once. The attendance of each member of the Remuneration Committee, on a named basis and by category, at committee meeting during the year is set out in the section "The Board Meeting – Committee Meeting" of this report above.

Board Committees (continued)

Nomination Committee

The Nomination Committee was established on 2 November 2007 with specific written terms of reference in compliance with the CG Code. The Nomination Committee, currently comprises 2 executive directors, namely Mr. Chan Yuen Tung (Chairman of the Committee) and Mr. Chiau Che Kong, and three independent non-executive directors, namely Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho.

The nomination committee is responsible for the following:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(c) to assess the independence of independent non-executive directors;

(d) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive officer;

(e) to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board;

(f) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or applicable laws; and

(g) to ensure the chairman of the Committee, or in the absence of the chairman, another member of the Committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting of the Company.

During the year, the Nomination Committee has met once. Please refer to the table set out in the section "The Board Meeting – Committee Meeting" of this report for the attendance record of individual Nomination Committee members.

Directors' Responsibilities for the Financial Statements

The directors acknowledge their responsibility for (i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements are in accordance with statutory requirements and applicable accounting standards and (ii) selecting suitable accounting policies and applying them consistently with the support of reasonable and prudent judgments and estimates.

The independent auditor's report of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out on page 27 of this annual report.

Accountability and Auditor's Remuneration

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 30 June 2010.

The statement of the external auditor of the Company about their responsibilities on the financial statements is set out in the "Independent Auditor's Report" section of this annual report.

Accountability and Auditor's Remuneration
(continued)

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. The Board has not taken any different view from that of the Audit Committee in respect of the selection, appointment, resignation or dismissal of external auditor.

The remuneration paid to RSM Nelson Wheeler, the external auditor of the Company, and the nature of services are set out as follows:

Type of services provided by the external auditor	**Fee paid/payable**
	HK$'000
Audit services:	
Audit of annual financial statements	930
Possible spin-off of Polyvinyl - Chloride and related Calcium Carbide business	1,440

Internal Control and Risk Management

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The internal audit department was set up on 15 May 2006, under the supervision of the Board. During the year, the Board reviewed the effectiveness of the internal control systems of the Group and had an independent evaluation to report on the adequacy and effectiveness of the Company's internal controls. The review covers aspects relating to financial and compliance controls of the major subsidiaries of the Company. Moreover, operation professionals had been appointed to perform reviews on the new information systems and operations. These reviews included operational workflow and risk management controls over new manufacturing functions of the Company.

Shareholders' Rights and Investor Relations

The Company encourages two-way communications with both institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to shareholders of the Company.

In September 2008, there are some amendments to the Listing Rules. Such rule amendments include shortening the reporting deadlines for the release of half-year results announcements (from three months to two months) by Main Board issuers, and shortening the reporting deadlines for the release of annual results announcements (from four months to three months) by Main Board issuers. The amendments apply to half-year accounting period ended on or after 30 June 2010 and will apply to annual accounting periods ending on or after 31 December 2010. The Company will try its best to adopt this practice.

Designated executive directors and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investor may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

At general meetings, the Chairman of the meetings raises separate resolutions for each effectively independent matter. The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board and the chairman of the Board committees, or in their absence, other members of the respective committees, are normally available to answer questions at the shareholders' meetings.

Biographical Details of Directors and Senior Management

Directors

Executive Directors

Mr. Chan Yuen Tung (陳遠東), aged 42, graduated with a bachelor's degree in Computer Engineering from The University of Hong Kong in 1992. Mr. Chan has enormous experience in manufacturing industries in the mainland China, properties development and investment in both the property and stock market in Hong Kong. From October 1995 to February 1999, Mr. Chan was appointed as an executive director of DC Finance (Holdings) Limited (now known as "SMI Corporation Limited") (Stock Code: 198), whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Since 2000, Mr. Chan has been participating in the investment in the manufacturing industries in the People's Republic of China (the "PRC"). He was appointed as a member of Mudanjiang Committee of the Chinese People's Political Consultative Conference in 2005 and became a member of standing committee of Mudanjiang Committee of the Chinese People's Political Consultative Conference in 2006. He was appointed as a member of Heilongjiang Province Committee of the Chinese People's Political Consultative Conference in 2007. Save as disclosed herein, Mr. Chan did not hold any other directorships in any listed public companies in the last three years. Mr. Chan was appointed as the chairman of the Board and an executive director of the Company with effect from 29 October 2007. Mr. Chan Yuen Tung was appointed as a member of remuneration committee in place of Ms. Chan Yuk Foebe with effect from 18 August 2009.

Ms. Chan Yuk Foebe (陳昱), aged 41, is the chief executive officer of the Group and joined the Group in January 2004. Ms. Chan is responsible for the overall management and business development of the Group. Ms. Chan holds a bachelor's degree in Accountancy from the Queensland University of Technology in Australia. Ms. Chan has over 10 years' experience in the areas of corporate finance and management. Ms. Chan is a non-executive director of Heng Tai Consumables Group Limited ("Heng Tai"), a company listed on the main board of the Stock Exchange. Mr. Chan Yuen Tung was appointed as a member of remuneration committee in place of Ms. Chan Yuk Foebe with effect from 18 August 2009.

Mr. Peng Zhanrong (彭展榮), aged 40, is an executive director of the Company and joined the Group in February 2004. Mr. Peng is responsible for overseeing the operation of the Group's investment in Mudanjiang, Heilongjiang Province, the PRC. Mr. Peng obtained a certificate from South China Advanced English College (華南高等英語專修院) in July 1994. Mr. Peng has over 10 years' experience in the automobile and petroleum industries in the PRC prior to joining the Group in February 2004. Mr. Peng was also an executive director of Heng Tai until his resignation with effect from 8 December 2008.

Mr. Chiau Che Kong (周志剛), aged 42, is an executive director and a member of the Nomination Committee of the Company. Mr. Chiau is specialised and has over 10 years' experience in the trading industry of consumer products in Hong Kong and the PRC prior to joining the Group in February 2004 as a marketing manager. Mr. Chiau was appointed as an executive director on 14 December 2005 and is responsible for the Group's administration and business development. Mr. Chiau was also an executive director of Heng Tai until his resignation with effect from 8 December 2008.

Mr. Wu Jianwei (武建偉), aged 56, is an executive director and the chief operation officer of the Company. He is mainly responsible for overseeing the sale, marketing, administration and production of vinyl acetate, polyvinyl-chloride, glucose and starch, heat and power. He joined the Company in September 2004. Mr. Wu has over 30 years' extensive experience in the operation and production management of coal-related petrochemical enterprises. He was the Chairman and Party secretary general manager of Mudanjiang Association of Petrochemical Industry (formerly known as Mudanjiang Petrochemical Industry Group Company) before serving the Group. He graduated from Mudanjiang Education College, majoring in economic management. Mr. Wu is a qualified senior economist in the PRC. Save as disclosed herein, he did not hold any other directorships in listed public companies in the last three years. Mr. Wu is appointed as an executive director of the Company with effect from 15 October 2007.

Directors (continued)

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan (馬榮欣), aged 44, is an independent non-executive director and is also the chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Ma is the finance director of Union Sun International Group Limited, a non-listed company with affiliates dealing in property development and the building and operation of hydro-electric plants in the PRC. He is currently an independent director of Celestial Nutrifoods Limited (listed on the main board of Singapore Exchange Securities Trade Limited (the "Singapore Exchange")). Moreover, Mr. Ma was an independent director of China Oilfield Technology Services Group Limited (listed on the main board of the Singapore Exchange) until 30 May 2010. He has approximately 20 years of experience in the areas of audit, financial management and operational management. Mr. Ma is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Ma was appointed as an independent non-executive director in February 2001.

Mr. Yau Chung Hong (丘忠航), aged 40, is an independent non-executive director. He joined the Group in March 2005 and is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Yau is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He is currently an executive director of Capital VC Limited (formerly known as Sino Katalytics Investment Corporation) and an independent nonexecutive director of Royale Furniture Holdings Limited (formerly known as Chitaly Holdings Limited). All of the aforementioned companies are listed on the main board of the Stock Exchange.

Mr. Tam Ching Ho (譚政豪), aged 39, is an independent non-executive Director and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. He obtained a bachelor's degree of arts with honours in accountancy from the City University of Hong Kong in 1993. Since graduation, Mr. Tam has worked in a reputable accounting firm specialising in providing assurance services to pre-listing, listed and multinational clients for more than eight years. He has also held senior positions in several companies which mainly include acting as the financial controller of a company listed on the main board of the Stock Exchange and another company listed on the main board of the Singapore Exchange for a total of about seven years. He is currently a practising certified public accountant registered with the Hong Kong Institute of Certified Public Accountants. Mr. Tam has accumulated extensive experience in the areas of corporate finance and administration, listing compliance, PRC business operating environment, investor relations, accounting and auditing. Mr. Tam is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He is also an independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited (stock code: 682) whose shares are listed on the main board of the Stock Exchange.

Dato' Wong Sin Just (黃森捷), aged 44, is an independent non-executive director of the Company. Dato' Wong is also an Independent Non-executive Director of China.com Inc, CSI Properties Ltd (formerly known as Capital Strategic Investment Limited), the shares of both of which are listed on the Stock Exchange as well as CDC Software Corporation Inc, the shares of which are listed on the NASDAQ market in the United States. Dato' Wong is the non-executive chairman of Westminster Travel Limited, the shares of which are listed on the Catalist board of the Singapore Exchange.

Dato' Wong was the non-executive director of Suncorp Technologies Limited until his resignation with effect from 27 October 2009. Moreover, Dato' Wong was a non-executive director of the China Renji Medical Group Limited (formerly known as Softbank Investment International (Strategic) Limited) until his resignation with effect from 8 December 2009. Dato' Wong was also an executive director of E2-Capital (Holdings) Limited until his resignation with effect from 31 May 2008. All of the aforementioned companies are listed on the Stock Exchange. Furthermore, Dato' Wong was a non-executive director of Intelligent Edge Technologies Berhad, the shares of which are listed on the ACE Market of Bursa Malaysia Securities Berhad until his vacation of office, with effect from 1 January 2010.

Directors (continued)

Independent Non-executive Directors (continued)

Dato' Wong possesses over 20 years of accounting, venture capital, fund management and investment banking experience and has held senior positions in investment banks and asset management companies. Dato' Wong holds a bachelor's degree in Engineering (First Class Honours) from the Imperial College of Science, Technology and Medicine in London. Dato' Wong was qualified as an associate of the Institute of Chartered Accountants, England and Wales in 1992 and during his service as a public accountant.

In addition, Dato' Wong is actively involved in various charitable and social organisations. This includes his role as a member of the Campaign Committee, Chairman of General Donations and Special Events Organising Committee of the Community Chest of Hong Kong which is a fund dedicated to the underprivileged in Hong Kong. Dato' Wong was appointed as an independent non-executive director of the Company on 27 December 2007.

Senior Management

Mr. Tsang Chiu Hung Victor (曾超鴻), aged 39, is the company secretary and the chief financial officer of the Group. Mr. Tsang is responsible for the company's secretarial functions and financial reporting of the Group. Mr. Tsang holds a bachelor's degree in Accountancy from the Hong Kong Polytechnic. Prior to joining the Group in May 2004, Mr. Tsang had over 10 years of experience in auditing and accounting. Mr. Tsang is an associate member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.

Mr. Wu Lianyong (吳連勇), aged 39, is the Vice General Manager of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group, and is mainly responsible for the sales of vinyl acetate. He joined the Group in 2004. Mr. Wu has over 15 years' extensive experience in sales in large chemical enterprises. He studied construction in Heilongjiang Radio & Television University (黑龍江省廣播電視大學) from 1989 to 1992.

Mr. Chen Li (陳蠡), aged 43, is the Vice General Manager of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group, and is mainly responsible for the production and technology management of vinyl acetate. He joined the Group in 2004. Mr. Chen has over 15 years' extensive experience in the production and technology management of large chemical enterprises. He studied fine chemistry in Qiqihar Institute of Light Industry (齊齊哈爾輕工學院) from 1985 to 1989.

Mr. Liu Hongwei (劉宏為), aged 57, is the Vice General Manager of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. and is mainly responsible for daily management of the PVC division. Mr. Liu has over 30 years' experience in accounting and management of large industrial enterprises. He joined the Group in March 2007. Mr. Liu completed a program of industries accounting at Heilongjiang Radio & Television University (黑龍江廣播電視大學) in July 1986.

Mr. Wang Manqing (王滿慶), aged 45, is the Vice General Manager of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. and is mainly responsible for the daily production of the PVC division. Mr. Wang has over 15 years' experience in the management of enterprises which manufacture PVC. He joined the Group in September 2005. He holds a master's degree in Business Administration from American City University (美國城市大學).

Mr. Sun Wei (孫偉), aged 54, is the Vice General Manager of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. and is mainly responsible for the daily management of the PVC division. Mr. Sun has over 20 years' experience in accounting and management of large industrial enterprises in China. He joined the Group in October 2005. He completed a program of economics and management from the Communist Party of China Heilongjiang Provincial Committee Party School (中共黑龍江省委黨校).

Senior Management (continued)

Mr. Wu Huamin (吳化民), aged 47, is the Vice General Manager of the Mudanjiang Gaoke Bio-Chem Company Limited and is mainly responsible for the daily production of the Vitamin C division. Mr. Wu has over 15 years' experience in production management of the medicine manufacturing enterprises. He joined the Group on May 2009. He studied mechanical development in Jiamusi Technical College (佳木斯工學院) from 1981 to1985.

Mr. Gao Lingcai (高令才), aged 47, is the Vice General Manager of the Mudanjiang Gaoke Bio-Chem Company Limited and is mainly responsible for daily production of the Vitamin C division. Mr. Wu has over 15 years' experience in production management of medicine manufacturing enterprises. He joined the Group in May 2009. He studied chemical medicine manufacturing at Shanghai Pharmaceutical Vocational College (上海醫藥職工大學) from 1985 to 1988.

Mr. Bai Yuwen (白玉文), aged 47, is the Vice General Manager of the Mudanjiang Better Day Power Limited of the Group, and is mainly responsible for the production and operation of power and steam. He joined the Group in December 2006. Mr. Bai has over 20 years' extensive experience in the production and operation management of enterprises which generate and supply power and steam. He further studied and graduated from Heilongjiang Province Public Transport Management Cadre Institute (黑龍江省公交管理幹部學院) in 1984, majoring in corporate management.

Mr. Tian Yu (田雨), aged 53, is the Vice General Manager of the Mudanjiang Better Day Power Limited of the Group, and is mainly responsible for the production technology of power and steam. He joined the Group in December 2006. Mr. Tian has over 20 years' extensive experience in the production, management and project construction aspects of enterprises which generate and supply power and steam. He further studied and graduated from Heilongjiang Province Economic Cadre Institute (黑龍江省經濟幹部學院) in 2000, majoring in economic management.

Mr. Sun Jianfei (孫劍飛), aged 38, is the Vice General Manager of the Mudanjiang Daytech Chemical Ltd. Mr. Sun has over 10 years' experience in the production management of chemical enterprises. He joined the Group in September 2005 and was promoted to Vice General Manager of the Mudanjiang Daytech Chemical Ltd. Mr. Sun completed a program of chemical technology from Mudanjiang Vocational University (牡丹江職工大學) in July 1995.

Mr. Zhang Jing (張靜), aged 49, is the Vice General Manager of the Mudanjiang Daytech Chemical Ltd. and is mainly responsible for the daily management of the production equipment and project construction of the chemical enterprises. Mr. Zhang has over 20 years' experience in the management and project construction of chemical enterprises. He joined the Group in 2004 and was promoted to Vice General Manager of the Mudanjiang Daytech Chemical Ltd. since May 2008. Mr. Zhang completed a chemistry program at the Heilongjiang University (黑龍江大學) in July 1986.

Senior Management Remuneration System

The remuneration system of the senior management of the Group is a combination of the economic benefit of the senior management (including executive directors) and the operational results and share performance of the Group. Most of the members of the senior management have signed result examination contracts' with the Company. In this system, the remuneration of the senior management comprises three parts, including basic salary, bonus and share options. The floating remuneration of the senior management represents approximately 70% to 75% of their total potential remuneration, which includes result bonuses and share options representing approximately 15% to 25% and 50% to 60% respectively of their total potential remuneration. Floating remuneration is linked with the specific business performance indicators, for example, the net profit, capital return and cost reduction indicator.

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 30 June 2010.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 21 to the financial statements.

An analysis of the Group's performance for the year by business segments is set out in note 8 to the financial statements.

Results and Dividends

The Group's profit for the year ended 30 June 2010 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 28 to 84.

The directors do not recommend the payment of dividend for the year ended 30 June 2010.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK$33,413.

Summary Financial Information

The following is a summary of the published consolidated results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate:

RESULTS

	Year ended 30 June				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER					
From continuing operations	**1,381,342**	1,095,614	1,666,103	911,507	469,921
From discontinued operations	**–**	–	–	100,775	297,304
	1,381,342	1,095,614	1,666,103	1,012,282	767,225
PROFIT FROM OPERATIONS	**304,390**	249,796	317,245	207,938	98,447
Finance costs	**(6,325)**	(5,894)	(4,888)	(4,507)	–
PROFIT BEFORE TAX	**298,065**	243,902	312,357	203,431	98,447
Income tax (expense)/credit	**(35,089)**	(38,042)	1,764	(2,443)	(2,967)
Profit for the year from continuing operations	**262,976**	205,860	314,121	200,988	95,480
(Loss)/profit for the year from discontinued operations	**–**	–	–	(125,962)	17,814
PROFIT FOR THE YEAR	**262,976**	205,860	314,121	75,026	113,294
Attributable to:					
Owners of the Company	**217,618**	167,896	265,394	64,256	84,529
Non-Controlling interests	**45,358**	37,964	48,727	10,770	28,765
	262,976	205,860	314,121	75,026	113,294

Summary Financial Information (continued)

ASSETS, LIABILITIES AND EQUITY

	At 30 June				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**3,076,911**	2,451,963	1,756,599	1,457,053	410,196
Current assets	**683,305**	603,991	887,147	682,893	790,378
TOTAL ASSETS	**3,760,216**	3,055,954	2,643,746	2,139,946	1,200,574
Non-current liabilities	**313,916**	206,059	188,712	157,263	1,643
Current liabilities	**426,681**	428,870	217,019	238,504	70,918
TOTAL LIABILITIES	**740,597**	634,929	405,731	395,767	72,561
TOTAL EQUITY	**3,019,619**	2,421,025	2,238,015	1,744,179	1,128,013
Attributable to:					
Equity holders of the Company	**2,793,461**	2,244,408	2,073,859	1,503,402	1,014,340
Non-controlling interests	**226,158**	176,617	164,156	240,777	113,673
	3,019,619	2,421,025	2,238,015	1,744,179	1,128,013

Note: The results of the Group for the year ended 30 June 2010 and of the assets, liabilities and equity of the Group as at 30 June 2010 are those set out on page 28 to 29 and pages 30 to 31 of the financial statements, respectively.

The results of the Group for the years ended 30 June 2006, 2007, 2008 and 2009 have been extracted from the audited financial statements of the Company for the respective years.

The assets, liabilities and equity of the Group as at 30 June 2006, 2007, 2008 and 2009 have been extracted from the audited financial statements of the Company for the respective years and have been restated as appropriate.

Fixed Assets

Details of movements in the Group's fixed assets are set out in note 17 to the financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements, respectively.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles or the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Islands Companies Law"), being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

Confirmation of Independence of Independent Non-executive Directors

The Company has received from each of Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong, Mr. Tam Ching Ho and Dato' Wong Sin Just an annual confirmation of their independence pursuant to the Rule 3.13 of the Listing Rules and the Company considers all independent non-executive directors are independent.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

Reserves

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 32 and 33 and note 29(b) to the financial statements, respectively.

Distributable Reserves

At 30 June 2010, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK$107,247,000. In addition, the share premium account of the Company of approximately HK$1,415,872,000 as at 30 June 2010 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

During the year, the sales to the Group's five largest customers accounted for approximately 14.3% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 3.8%.

Purchases from the Group's five largest suppliers accounted for approximately 70% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 49.1%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Directors

The directors of the Company during the year were as follows:

Executive Directors:

Mr. Chan Yuen Tung

Ms. Chan Yuk Foebe

Mr. Peng Zhanrong

Mr. Chiau Che Kong

Mr. Wu Jianwei

Independent Non-executive Directors:

Mr. Ma Wing Yun Bryan

Mr. Yau Chung Hong

Mr. Tam Ching Ho

Dato' Wong Sin Just

In accordance with articles 108 and 112 of the Articles, Mr. Chan Yuen Tung, Ms. Chan Yuk Foebe, Mr. Wu Jianwei and Mr. Tam Ching Ho, will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical Details of the Directors and Senior Management

Biographical details of the directors of the Company and senior management of the Group are set out on pages 16 to 19 of this annual report.

Directors' Service Contracts

Each of Ms. Chan Yuk Foebe and Mr. Peng Zhanrong has entered into a service contract with the Company commencing from 22 November 2004, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other. Mr. Chiau Che Kong has entered into a service contract with the Company commencing from 14 December 2005, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other. Moreover, Mr. Chan Yuen Tung and Mr. Wu Jianwei have entered into a service contract with the Company commencing from 29 October 2007 and 15 October 2007 respectively and, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other, and will be automatically terminated after three years from the commencing date.

Mr. Ma Wing Yun Bryan was appointed for a term of two years as an independent non-executive director of the Company commencing from 28 February 2001. The term of his appointment was renewed for a further two years commencing from 28 February 2003. Upon the expiry of his appointment on 27 February 2005, the Company did not renew the service contract with Mr. Ma Wing Yun Bryan until 24 March 2006. The Company renewed service contract with Mr. Ma Wing Yun, Bryan for a further term of three years, commencing from 1 April 2006. Moreover, the term of his appointment was renewed for a further two years commencing from 1 April 2009.

Directors' Service Contracts (continued)

The Company entered into a service contract with Mr. Yau Chung Hong for a term of three years as an independent non-executive director of the Company commencing from 1 April 2006. The term of his appointment was renewed for a further two years commencing from 1 April 2009.

The Company entered into a service contract with Mr. Tam Ching Ho commencing from 30 June 2007 to the next annual general meeting (i.e. 6 December 2007) of the Company. On 7 December 2007, the Company renewed the service contract with Mr. Tam Ching Ho for a term of two years as an independent non-executive director of the Company commencing from 7 December 2007. Moreover, the term of his appointment was renewed for a further two years commencing from 7 December 2009.

The Company entered into a service contract with Dato' Wong Sin Just with a term commencing from 27 December 2007 to the next annual general meeting (i.e. 31 December 2008) of the Company. On 31 December 2008, the Company renewed the service contract with Dato' Wong Sin for a term of two years as an independent non-executive director of the Company commencing from 31 December 2008.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

Directors' and Chief Executive's Interests or Short Positions in Shares and Underlying Shares

As at the 30 June 2010, the interests of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

Interests in the Shares and Underlying Shares

Name of director	Name of company	Type of interest	Number of Shares held (long position) (% of issued capital of the Company)		Share options held
Mr. Chan Yuen Tung	The Company	Beneficial Interest	1,635,970,430	26.81%	Nil
Mr. Chiau Che Kong	The Company	Beneficial Interest	124,170,000	2.03%	Nil
Ms. Chan Yuk Foebe	The Company	Beneficial Interest	22,125,000	0.36%	Nil
Mr. Tam Ching Ho	The Company	Beneficial Interest	2,880,000	0.05%	Nil

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Interests of Shareholders Disclosable under the SFO

As far as the directors of the Company are aware, as at 30 June 2010, the following persons, other than a director or chief executives of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of ordinary shares	Capacity (subject to the notes below)	Approximate percentage interest
Pope Asset Management, LLC	Long position 602,617,326	Investment manager	9.88%

Save as disclosed above, as far as the directors of the Company are aware, as at 30 June 2010, no other person had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, there is sufficient public float of more than 25% of the Company's shares in the market as required under the Listing Rules.

Directors' Interests in a Competing Business

During the year and up to the date of this report, no director of the Company is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

Audit Committee

The Audit Committee has reviewed the audited financial statements and results of the Group for the year ended 30 June 2010 and is of the view such financial statements are in compliance with applicable accounting standards and requirements.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries to all the directors, all the directors confirmed that they have complied with the code provisions in the Model Code.

Auditor

A resolution to re-appoint the retiring auditor, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chan Yuen Tung
Chairman

Hong Kong
28 September 2010

Independent Auditor's Report

RSM! Nelson Wheeler
中瑞岳華（香港）會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
CHINA ZENITH CHEMICAL GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Zenith Chemical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 84, which comprise the consolidated and Company statements of financial position as at 30 June 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2010 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

28 September 2010

Consolidated Income Statement

for the year ended 30 June 2010

	Note	2010 HK$'000	2009 HK$'000
Turnover	6	**1,381,342**	1,095,614
Cost of sales		**(1,049,531)**	(832,637)
Gross profit		**331,811**	262,977
Other income	7	**110,333**	95,577
Selling and distribution costs		**(14,543)**	(13,970)
Administrative expenses		**(111,398)**	(78,768)
Other operating expenses		**(11,813)**	(16,020)
Profit from operations		**304,390**	249,796
Finance costs	9	**(6,325)**	(5,894)
Profit before tax		**298,065**	243,902
Income tax expense	10	**(35,089)**	(38,042)
Profit for the year	11	**262,976**	205,860
Attributable to:			
Owners of the Company	13	**217,618**	167,896
Non-controlling interests		**45,358**	37,964
		262,976	205,860
			(Restated)
Earnings per share			
– Basic	15	**HK3.88 cents**	HK3.74 cents
– Diluted	15	**HK3.85 cents**	HK3.74 cents

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2010

	Note	2010 HK$'000	2009 HK$'000
Profit for the year		**262,976**	205,860
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		**28,510**	(1,772)
Gains on property revaluation		**734**	4,090
Other comprehensive income for the year, net of tax	16	**29,244**	2,318
Total comprehensive income for the year		**292,220**	208,178
Attributable to:			
Owners of the Company		**242,679**	170,549
Non-controlling interests		**49,541**	37,629
		292,220	208,178

Consolidated Statement of Financial Position

at 30 June 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Fixed assets	17	**2,310,890**	1,673,320
Prepaid land lease payments	18	**540,150**	546,428
Goodwill	19	**123,589**	123,589
Other intangible assets	20	**101,217**	107,032
Deferred tax assets	30	**1,065**	1,594
		3,076,911	2,451,963
Current assets			
Inventories	23	**103,592**	62,305
Trade receivables	24	**452,411**	435,241
Prepayments, deposits and other receivables		**105,259**	86,855
Financial assets at fair value through profit or loss	25	**7,102**	7,202
Bank and cash balances	26	**14,941**	12,388
		683,305	603,991
TOTAL ASSETS		**3,760,216**	3,055,954
Capital and reserves			
Share capital	27	**61,023**	37,409
Reserves	29	**2,732,438**	2,206,999
Equity attributable to owners of the Company		**2,793,461**	2,244,408
Non-controlling interests		**226,158**	176,617
Total equity		**3,019,619**	2,421,025

Consolidated Statement of Financial Position

at 30 June 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Bank loans	33	**158,201**	45,416
Deferred tax liabilities	30	**155,715**	160,643
		313,916	206,059
Current liabilities			
Trade payables	31	**79,570**	43,821
Other payables and accruals		**204,370**	226,471
Due to a director	32	**10,000**	–
Due to a non-controlling shareholder of a subsidiary	32	**66,124**	82,124
Bank loans	33	**58,480**	57,606
Current tax liabilities		**8,137**	18,848
		426,681	428,870
Total liabilities		**740,597**	634,929
TOTAL EQUITY AND LIABILITIES		**3,760,216**	3,055,954
Net current assets		**256,624**	175,121
Total assets less current liabilities		**3,333,535**	2,627,084

Chan Yuen Tung
Chairman

Chan Yuk Foebe
Executive Director

Consolidated Statement of Changes in Equity

for the year ended 30 June 2010

	Attributable to owners of the Company									
	Issued share capital HK$'000	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2009	37,409	1,064,852	31,635	17,008	121,703	–	971,801	2,244,408	176,617	2,421,025
Total comprehensive income for the year	–	–	734	–	24,327	–	217,618	242,679	49,541	292,220
Issue of shares (note 27)	23,104	262,595	–	–	–	–	–	285,699	–	285,699
Share option benefits										
– Grant of share options (note 28)	–	–	–	10,199	–	–	–	10,199	–	10,199
– Exercise of share options	510	7,854	–	–	–	–	–	8,364	–	8,364
– Transfer to share premium	–	2,537	–	(2,537)	–	–	–	–	–	–
Issue of warrants (note 27)	–	–	–	–	–	2,112	–	2,112	–	2,112
Changes in equity for the year	23,614	272,986	734	7,662	24,327	2,112	217,618	549,053	49,541	598,594
At 30 June 2010	61,023	1,337,838	32,369	24,670	146,030	2,112	1,189,419	2,793,461	226,158	3,019,619

Consolidated Statement of Changes in Equity

for the year ended 30 June 2010

	Attributable to owners of the Company									
	Issued share capital HK$'000	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2008	37,409	1,064,852	27,545	17,008	123,140	–	803,905	2,073,859	164,156	2,238,015
Total comprehensive income for the year	–	–	4,090	–	(1,437)	–	167,896	170,549	37,629	208,178
Business combination	–	–	–	–	–	–	–	–	44,541	44,541
Dividend paid to a non-controlling shareholder	–	–	–	–	–	–	–	–	(69,709)	(69,709)
Changes in equity for the year	–	–	4,090	–	(1,437)	–	167,896	170,549	12,461	183,010
At 30 June 2009	37,409	1,064,852	31,635	17,008	121,703	–	971,801	2,244,408	176,617	2,421,025

Consolidated Statement of Cash Flows

for the year ended 30 June 2010

	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**298,065**	243,902
Adjustments for:		
Finance costs	**6,325**	5,894
Interest income	**(87)**	(570)
Dividend income	**(70)**	(521)
Depreciation	**58,436**	47,264
Amortisation of prepaid land lease payments	**9,853**	6,796
Amortisation of other intangible assets	**5,973**	5,967
Allowance for receivables	**5,552**	6,788
Write off of fixed assets	**278**	2,401
Fair value loss on financial assets at fair value through profit or loss	**2,374**	9,250
Gain on disposal of fixed assets	**–**	(9)
Gain on disposal of financial assets at fair value through profit or loss	**(1,132)**	(856)
Reversal of revaluation deficit on buildings	**(425)**	(1,371)
Share option benefits	**10,199**	–
Operating profit before working capital changes	**395,341**	324,935
(Increase)/decrease in inventories	**(41,287)**	41,569
Increase in trade receivables	**(17,997)**	(37,648)
(Increase)/decrease in prepayments, deposits and other receivables	**(23,129)**	8,525
Increase in trade payables	**35,749**	14,435
(Decrease)/increase in other payables and accruals	**(22,101)**	10,118
(Increase)/decrease in financial assets at fair value through profit or loss	**(1,142)**	5,728
Cash generated from operations	**325,434**	367,662
Interest received	**87**	570
Dividend received	**70**	521
Interest paid	**(6,325)**	(5,894)
Income taxes paid	**(52,185)**	(31,623)
Net cash generated from operating activities	**267,081**	331,236
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries	**–**	38
Purchases of fixed assets	**(672,697)**	(338,089)
Proceeds from disposal of fixed assets	**–**	227
Net cash used in investing activities	**(672,697)**	(337,824)

Consolidated Statement of Cash Flows

for the year ended 30 June 2010

	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of shares	**285,699**	–
Exercise of share options	**8,364**	–
Issue of warrants	**2,112**	–
Dividend paid to a non-controlling shareholder of a subsidiary	**–**	(62,738)
Decrease in amount due to a non-controlling shareholder of a subsidiary	**(16,000)**	–
Increase in amount due to a director	**10,000**	–
Bank loan raised	**169,510**	27,211
Repayment of bank loan	**(57,859)**	(2,049)
Net cash generated from/(used in) financing activities	**401,826**	(37,576)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,790)**	(44,164)
Effect of foreign exchange rate changes	**6,343**	335
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**12,388**	56,217
CASH AND CASH EQUIVALENTS AT END OF YEAR	**14,941**	12,388
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**14,941**	12,388

Statement of Financial Position

at 30 June 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Investments in subsidiaries	21	**511,921**	501,722
Current assets			
Prepayments		**1,211**	–
Due from subsidiaries	22	**1,324,863**	1,033,479
Bank and cash balances		**3,171**	274
		1,329,245	1,033,753
TOTAL ASSETS		**1,841,166**	1,535,475
Capital and reserves			
Share capital	27	**61,023**	37,409
Reserves	29	**1,549,901**	1,277,840
Total equity		**1,610,924**	1,315,249
Current liabilities			
Due to subsidiaries	22	**219,869**	219,869
Due to a director	32	**10,000**	–
Other payables and accruals		**373**	357
		230,242	220,226
TOTAL EQUITY AND LIABILITIES		**1,841,166**	1,535,475
Net current assets		**1,099,003**	813,527
Total assets less current liabilities		**1,610,924**	1,315,249

Chan Yuen Tung
Chairman

Chan Yuk Foebe
Executive Director

Notes to the Financial Statements

for the year ended 30 June 2010

1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Units 1101-1112, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 21 to the financial statements.

2. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 July 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below.

(a) Presentation of Financial Statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

(b) Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision marker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two set of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 8 to the financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Significant Accounting Policies

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings and investments which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated exchange reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

3. Significant Accounting Policies (continued)

(a) Consolidation (continued)

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (v) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

3. Significant Accounting Policies (continued)

(b) Business combination and goodwill (continued)

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the exchange reserve.

3. Significant Accounting Policies (continued)

(c) Foreign currency translation (continued)

(iii) Translation on consolidation (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Fixed assets

Buildings comprise mainly factories and offices. Buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Revaluation increases of buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the fixed asset revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the fixed asset revaluation reserve are charged against the fixed asset revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued building, the attributable revaluation increase remaining in the fixed asset revaluation reserve is transferred directly to retained profits.

Depreciation of fixed assets is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	The shorter of the lease terms and 30 to 50 years
Leasehold improvements	10 years
Pipelines and trench	30 years
Plant and machinery	10 to 30 years
Furniture, office equipment and motor vehicles	5 to 10 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

3. Significant Accounting Policies (continued)

(d) Fixed assets (continued)

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(f) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are capitalised only if all of the following conditions are met:

– An asset is created that can be identified (such as new products);

– It is probable that the asset created will generate future economic benefits; and

– The development cost of the asset can be measured reliably.

Deferred development costs are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives of 5 years.

(g) Other intangible assets

(i) Technical know-how

Technical know-how is measured initially at purchase cost and is amortised on a straight-line basis over its estimated useful life of 10 years.

(ii) Trade name and exclusive right

Trade name and exclusive right are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful life of 25 years.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3. Significant Accounting Policies (continued)

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(j) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value.

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

3. Significant Accounting Policies (continued)

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(iv) Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The net proceed received from the issue of warrants is recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium account upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to retained profits.

3. Significant Accounting Policies (continued)

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits schemes

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of HK$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the People's Republic of China (the "PRC") are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. Significant Accounting Policies (continued)

(p) Share-based payments

The Group issues equity-settled share-based payments to certain employees and business associates. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

3. Significant Accounting Policies (continued)

(s) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. Significant Accounting Policies (continued)

(t) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(u) Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

3. Significant Accounting Policies (continued)

(v) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, deferred tax assets, investments, inventories and receivables, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(x) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Key Estimates

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Fixed assets and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives and residual values of fixed assets of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Impairment test of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately HK$123,589,000. Details of the impairment test calculation are provided in note 19 to the financial statements.

(d) Useful lives of other intangible assets

The Group determines the estimated useful lives and related amortisation charges for the Group's other intangible assets. This estimate is based on the expected pattern of consumption of the future economic benefits embodied in the asset or, where appropriate, the contractual or other legal rights associated with the assets. The Group will revise the amortisation period and the amortisation method for an intangible asset where the useful life is different to that previously estimated.

(e) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

5. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi ("RMB") which are the functional currencies of the principal operating entities of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with different risk profiles.

At 30 June 2010, if the quoted market prices of the Group's listed securities increase/decrease by 10%, profit after tax for the year would have been approximately HK$710,000 (2009: HK$720,000) higher/lower.

(c) Credit risk

The carrying amount of the bank and cash balances, trade and other receivables and investments included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's credit risk is primarily attributable to its trade and other receivables. It has policies in place to ensure that sales are made to customers with an appropriate credit history. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

5. Financial Risk Management (continued)

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	HK$'000	HK$'000	HK$'000
At 30 June 2010				
Bank loans	66,445	11,149	128,855	38,899
Trade payables	79,570	–	–	–
Other payables and accruals	123,002	–	–	–
Due to a director	10,000	–	–	–
Due to a non-controlling shareholder of a subsidiary	66,124	–	–	–
At 30 June 2009				
Bank loans	59,154	3,091	9,275	41,990
Trade payables	43,821	–	–	–
Other payables and accruals	137,238	–	–	–
Due to a non-controlling shareholder of a subsidiary	82,124	–	–	–

(e) Interest rate risk

Bank loans of approximately HK$56,321,000 (2009: HK$55,492,000) are arranged at fixed rate and therefore are subject to fair value interest rate risk.

Bank loans of approximately HK$160,360,000 (2009: HK$47,530,000) are arranged at floating rate varied with the then prevailing market condition.

At 30 June 2010, if interest rates at that date had been 1% lower/higher with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$1,604,000 (2009: HK$475,000) higher/lower, arising mainly as a result of lower/higher interest expense on bank loans.

5. Financial Risk Management (continued)

(f) Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets:		
Financial assets at fair value through profit or loss:		
Held for trading	**7,102**	7,202
Loans and receivables (including cash and cash equivalents)	**480,119**	469,173
Financial liabilities:		
Financial liabilities at amortised cost	**495,377**	366,205

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy

	Fair value measurement using level 1	
	2010 HK$'000	2009 HK$'000
Financial assets at fair value through profit or loss		
Equity investments	**7,102**	7,202

6. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after eliminations of all significant intra-group transactions during the year.

7. Other Income

	Group	
	2010	2009
	HK$'000	HK$'000
Dividend income from listed investments	**70**	521
Gain on disposal of financial assets at fair value through profit or loss	**1,132**	856
Gain on disposal of fixed assets	**–**	9
Government grants (note)	**95,477**	89,796
Interest income	**87**	570
Reversal of revaluation deficit on buildings	**425**	1,371
Construction income of installation of pipe	**11,437**	857
Sundry income	**1,705**	1,597
	110,333	95,577

Note: Government grants for the year ended 30 June 2010 were received as incentive for capital expenditure and environmental protection, subsidy for operating costs and refund of value-added tax, business tax, income tax and land use tax. Government grants for the year ended 30 June 2009 were received as incentive for capital expenditure and environmental protection and refund of value-added tax, business tax and income tax. There are no unfulfilled conditions or contingencies attached to the grants.

8. Segment Information

The Group has five reportable segments as follows:

Polyvinyl-chloride – manufacture and sale of polyvinyl-chloride;

Vinyl acetate – manufacture and sale of vinyl acetate;

Heat and power – generation and supply of heat and power;

Vitamin C, glucose and starch – manufacture and sale of vitamin C, glucose and starch; and

Calcium carbide – manufacture and sale of calcium carbide.

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies.

8. Segment Information (continued)

The accounting policies of the operating segments are the same as those described in note 3(u) to the financial statements. Segment profits or losses do not include fair value loss on financial assets at fair value through profit or loss, gain on disposal of financial assets at fair value through profit or loss, withholding tax on dividend income, dividend income from listed investments and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, amount due to a director, amount due to a non-controlling shareholder of a subsidiary and other payables and accruals for general administrative use.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about reportable segment profit or loss, assets and liabilities:

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Total HK$'000
Year ended 30 June 2010						
Revenue from external customers	739,526	543,145	59,120	39,551	–	1,381,342
Intersegment revenue	1,688	–	78,733	–	–	80,421
Segment profit/(loss)	141,088	131,588	19,782	8,665	(16,555)	284,568
Interest revenue	16	21	12	3	31	83
Interest expense	1,092	3,702	–	–	552	5,346
Depreciation and amortisation	15,516	12,655	13,903	24,608	6,000	72,682
Other material items of income and expense:						
Government grants	19,364	28,963	3,864	42,780	506	95,477
Construction income of installation of pipe	–	–	11,437	–	–	11,437
Income tax expense/(credit)	21,481	23,626	(5,113)	(3,745)	(1,160)	35,089
Other material non-cash items:						
Allowance for receivables						
– trade receivables	429	398	–	–	–	827
– other receivables	2,846	–	1,515	364	–	4,725
Additions to segment non-current assets	18,805	4,536	8,426	115,787	525,096	672,650
As at 30 June 2010						
Segment assets	595,162	519,797	412,309	776,416	1,225,424	3,529,108
Segment liabilities	12,383	39,927	124,150	200,475	68,001	444,936

8. Segment Information (continued)

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Total HK$'000
Year ended 30 June 2009						
Revenue from external customers	615,208	390,245	73,713	16,448	–	1,095,614
Intersegment revenue	1,174	1,252	37,632	–	–	40,058
Segment profit/(loss)	132,680	103,972	32,083	(22,208)	(5,882)	240,645
Interest revenue	96	104	17	288	40	545
Interest expense	134	4,688	–	–	–	4,822
Depreciation and amortisation	14,112	12,526	11,982	16,901	2,931	58,452
Other material items of income and expense:						
Government grants	27,863	30,193	31,256	–	484	89,796
Construction income of installation of pipe	–	–	857	–	–	857
Income tax expense/(credit)	17,921	16,233	6,019	(13,115)	(942)	26,116
Other material non-cash items:						
Allowance for receivables						
– trade receivables	2,051	–	500	1,675	–	4,226
– other receivables	–	–	–	2,562	–	2,562
Additions to segment non-current assets	2,282	1,363	109,128	90,613	348,696	552,082
As at 30 June 2009						
Segment assets	574,120	485,850	436,629	653,687	684,299	2,834,585
Segment liabilities	22,939	40,202	112,904	164,180	108,774	448,999

8. Segment Information (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities:

	2010 HK$'000	2009 HK$'000
Profit or loss		
Total profit or loss of reportable segments	**284,568**	240,645
Fair value loss on financial assets at fair value through profit or loss	**(2,374)**	(9,250)
Gain on disposal of financial assets at fair value through profit or loss	**1,132**	856
Withholding tax on dividend income	**–**	(11,926)
Dividend income from listed investments	**70**	521
Corporate administrative expenses	**(20,420)**	(14,986)
Consolidated profit for the year	**262,976**	205,860
Assets		
Total assets of reportable segments	**3,529,108**	2,834,585
Goodwill	**123,589**	123,589
Bank and cash balances	**14,941**	12,388
Financial assets at fair value through profit or loss	**7,102**	7,202
Other assets	**85,476**	78,190
Consolidated total assets	**3,760,216**	3,055,954
Liabilities		
Total liabilities of reportable segments	**444,936**	448,999
Bank loans	**216,681**	103,022
Due to a director	**10,000**	–
Due to a non-controlling shareholder of a subsidiary	**66,124**	82,124
Other payables and accruals for general administrative use	**2,856**	784
Consolidated total liabilities	**740,597**	634,929

The Group's revenue is derived from customers based in the PRC and accordingly, no geographical information is presented.

None of the Group's customers contributed 10% or more of the Group's revenue during the two years ended 30 June 2009 and 2010 and accordingly, no major customers information is presented.

9. Finance Costs

	Group	
	2010	2009
	HK$'000	HK$'000
Interest on bank loans	**6,021**	5,239
Interest on discounted bills	**304**	655
	6,325	5,894

10. Income Tax Expense

	Group	
	2010	2009
	HK$'000	HK$'000
Current tax – Overseas		
Provision for the year	**47,344**	39,745
(Over)/under-provision in prior years	**(6,040)**	40
Withholding tax on dividend income	**–**	11,926
	41,304	51,711
Deferred tax (note 30)	**(6,215)**	(13,669)
	35,089	38,042

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Pursuant to relevant laws and regulations in the PRC, Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Dongbei Chemical"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year, i.e., from 1 January 2005 to 31 December 2006, and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years, i.e., from 1 January 2007 to 31 December 2009.

10. Income Tax Expense (continued)

Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. ("Mudanjiang Dongbei Gaoxin"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year, i.e., from 1 January 2006 to 31 December 2007, and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years, i.e., from 1 January 2008 to 31 December 2010.

Mudanjiang Better Day Power Limited ("Mudanjiang BD Power"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years i.e., from 1 January 2010 to 31 December 2012. No provision for PRC enterprise income tax has been made as Mudanjiang BD Power has no assessable profit for the year (2009: Nil).

Mudanjiang Gaoke Bio-Chem Company Limited ("Mudanjiang Gaoke"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years i.e., from 1 January 2010 to 31 December 2012. No provision for PRC enterprise income tax has been made as Mudanjiang Gaoke has no assessable profit for the year (2009: Nil).

Mudanjiang Daytech Chemical Ltd. ("Mudanjiang Daytech Chemical"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made as Mudanjiang Daytech Chemical has no assessable profit for the year (2009: Nil).

Heihe LongJiang Chemical Company Limited ("Heihe LongJiang Chemical"), a subsidiary of the Company, is subject to PRC enterprise income tax at the rate of 25%. No provision for PRC enterprise income tax has been made as Heihe LongJiang Chemical has no assessable profit for the year (2009: Nil).

Pursuant to the Corporate Income Tax Law of the PRC approved by the National People's Congress on 16 March 2007, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividend derived from sources within the PRC.

According to the notice Cai Shui {2008} No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from withholding tax. Accordingly, the retained profits at 31 December 2007 in the Group's foreign-invested enterprises' books and accounts will not be subject to withholding tax on dividend on future distribution.

10. Income Tax Expense (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

Group

For the year ended 30 June 2010

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(23,722)		321,787		298,065	
Tax at the statutory tax rate	(3,914)	(16.5)	80,447	25.0	76,533	25.7
Preferential statutory tax rate offered	–	–	(42,811)	(13.3)	(42,811)	(14.4)
Income tax exempted	(12)	–	–	–	(12)	–
Expenses not deductible for tax	2,888	12.1	2,541	0.8	5,429	1.8
Unrecognised temporary differences	68	0.3	2,302	0.7	2,370	0.8
Tax losses not recognised	970	4.1	5,982	1.9	6,952	2.3
Utilisation of unrecognised tax losses	–	–	(7,332)	(2.3)	(7,332)	(2.4)
Overprovision in prior years	–	–	(6,040)	(1.9)	(6,040)	(2.0)
Tax expense at the Group's effective tax rate	–	–	35,089	10.9	35,089	11.8

10. Income Tax Expense (continued)

Group (continued)

For the year ended 30 June 2009

	Hong Kong HK$'000	%	The PRC HK$'000	%	Total HK$'000	%
Profit/(loss) before tax	(17,978)		261,880		243,902	
Tax at the statutory tax rate	(2,966)	(16.5)	65,470	25.0	62,504	25.6
Preferential statutory tax rate offered	–	–	(40,733)	(15.6)	(40,733)	(16.7)
Income tax exempted	(90)	(0.5)	–	–	(90)	–
Expenses not deductible for tax	333	1.8	–	–	333	0.1
Unrecognised temporary differences	64	0.4	(3,558)	(1.4)	(3,494)	(1.4)
Tax losses not recognised	2,659	14.8	4,096	1.6	6,755	2.8
Withholding tax	–	–	11,926	4.6	11,926	4.9
Effect of change in tax rate in prior year	–	–	801	0.3	801	0.3
Underprovision in prior years	–	–	40	–	40	–
Tax expense at the Group's effective tax rate	–	–	38,042	14.5	38,042	15.6

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately HK$78,859,000 (2009: HK$45,500,000). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

11. Profit for the Year

The Group's profit for the year is stated after charging the following:

	2010 HK$'000	2009 HK$'000
Auditor's remuneration	**930**	850
Allowance for receivables		
– trade receivables	**827**	4,226
– other receivables	**4,725**	2,562
Write off of fixed assets	**278**	2,401
Amortisation of other intangible assets (included in administrative expenses)	**5,973**	5,967
Cost of inventories sold	**1,049,531**	832,637
Depreciation	**58,436**	47,264
Minimum lease payments under operating leases for land and buildings	**12,238**	9,136
Fair value loss on financial assets at fair value through profit or loss (held for trading)	**2,374**	9,250
Staff costs (excluding directors' remuneration – note 12):		
Wages, salaries and benefits in kind	**34,337**	28,194
Employee share option benefits	**10,199**	–
Retirement benefits scheme contributions	**5,723**	5,298

Cost of inventories sold includes staff costs and depreciation of approximately HK$18,698,000 (2009: HK$11,686,000) and HK$34,864,000 (2009: HK$30,983,000), respectively, which are included in the amounts disclosed separately above.

12. Directors' and Employees' Remuneration

The emoluments of each director were as follows:

	Basic salaries, housing benefits, other allowances and benefits in kind		Retirement benefits scheme contributions		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors						
Mr. Chan Yuen Tung	**10**	10	**–**	–	**10**	10
Ms. Chan Yuk Foebe	**1,200**	1,200	**–**	–	**1,200**	1,200
Mr. Chiau Che Kong	**285**	253	**12**	12	**297**	265
Mr. Peng Zhanrong	**360**	360	**–**	–	**360**	360
Mr. Wu Jianwei	**539**	541	**–**	–	**539**	541
Independent non-executive directors						
Mr. Ma Wing Yun Bryan	**120**	120	**–**	–	**120**	120
Mr. Yau Chung Hong	**120**	120	**–**	–	**120**	120
Mr. Tam Ching Ho	**120**	120	**–**	–	**120**	120
Dato' Wong Sin Just	**120**	120	**–**	–	**120**	120
	2,874	2,844	**12**	12	**2,886**	2,856

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2009: Nil).

12. Directors' and Employees' Remuneration (continued)

The emoluments of the five highest paid individuals in the Group during the year ended 30 June 2010 are set out below. The five highest paid individuals in the Group during the year ended 30 June 2009 included 3 directors whose emoluments are reflected in the analysis presented above.

	Group	
	2010	2009
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**293**	738
Employee share option benefits	**9,204**	–
Retirement benefits scheme contributions	**–**	24
	9,497	762

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
Nil to HK$1,000,000	**–**	2
HK$1,500,001 to HK$2,000,000	**5**	–
	5	2

During the year ended 30 June 2010, share options were granted to certain employees in respect of their services to the Group, further details of which are included in note 28 to the financial statements. The fair value of such options, which has been recognised to profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year ended 30 June 2010 is included in the above five highest paid individuals' emoluments disclosures.

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. Profit for the Year Attributable to Owners of the Company

The profit for the year attributable to owners of the Company for the year ended 30 June 2010 included a loss of approximately HK$10,699,000 (2009: HK$44,615,000) which has been dealt with in the financial statements of the Company.

14. Dividend

The directors do not recommend the payment of dividend for the year ended 30 June 2010 (2009: Nil).

15. Earnings Per Share

Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$217,618,000 (2009: HK$167,896,000) and the weighted average number of ordinary shares of 5,605,315,824 (2009: 4,493,131,573, as adjusted to reflect the open offer on 19 August 2009) in issue during the year.

Diluted earnings per share

The calculation of diluted earnings per share attributable to owners of the Company for the year ended 30 June 2010 is based on the profit for the year ended 30 June 2010 attributable to owners of the Company of approximately HK$217,618,000 and the weighted average number of ordinary shares of 5,645,584,825, being the weighted average number of ordinary shares of 5,605,315,824, in issue during the year ended 30 June 2010 used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 40,269,001 assumed to have been issued at no consideration on the deemed exercise of the share options and warrants outstanding during the year ended 30 June 2010.

There were no potential ordinary shares in issue during the year ended 30 June 2009.

16. Other Comprehensive Income

Tax effects relating to each component of other comprehensive income for the year:

	2010			2009		
	Amount before tax HK$'000	**Tax HK$'000**	**Amount after tax HK$'000**	Amount before tax HK$'000	Tax HK$'000	Amount after tax HK$'000
Exchange differences on translating foreign operations	**28,510**	**-**	**28,510**	(1,772)	-	(1,772)
Gains on property valuation	**1,143**	**(409)**	**734**	5,443	(1,353)	4,090
Other comprehensive income	**29,653**	**(409)**	**29,244**	3,671	(1,353)	2,318

17. Fixed Assets

Group

	Buildings	Construction in progress	Plant and machinery	Leasehold improvements	Furniture, office equipment and motor vehicles	Pipelines and trench	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:							
At 1 July 2008	245,464	50,331	884,443	3,006	20,427	27,644	1,231,315
Additions	1,191	547,703	2,031	11	952	212	552,100
Acquisition of subsidiaries	–	834	–	–	11	–	845
Disposal/write off	–	(2,381)	–	–	(259)	–	(2,640)
Transfer	2,463	(20,845)	8,968	–	132	9,282	–
Revaluation	464	–	–	–	–	–	464
Exchange differences	(255)	(561)	(1,065)	–	(41)	(16)	(1,938)
At 30 June 2009 and 1 July 2009	249,327	575,081	894,377	3,017	21,222	37,122	1,780,146
Additions	479	641,037	27,496	21	3,664	–	672,697
Disposal/write off	–	(247)	(50)	–	(17)	–	(314)
Transfer	31,062	(204,114)	157,029	–	–	16,023	–
Revaluation	(6,745)	–	–	–	–	–	(6,745)
Exchange differences	1,903	11,160	8,729	–	285	340	22,417
At 30 June 2010	**276,026**	**1,022,917**	**1,087,581**	**3,038**	**25,154**	**53,485**	**2,468,201**
Accumulated depreciation:							
At 1 July 2008	–	–	57,444	177	5,793	2,460	65,874
Charge for the year	6,518	–	35,581	301	3,299	1,565	47,264
Disposal/write off	–	–	–	–	(21)	–	(21)
Write back on revaluation	(6,350)	–	–	–	–	–	(6,350)
Exchange differences	(168)	–	(225)	–	80	372	59
At 30 June 2009 and 1 July 2009	–	–	92,800	478	9,151	4,397	106,826
Charge for the year	8,436	–	43,743	303	3,568	2,386	58,436
Disposal/write off	–	–	(19)	–	(17)	–	(36)
Write back on revaluation	(8,313)	–	–	–	–	–	(8,313)
Exchange differences	(123)	–	534	–	60	(73)	398
At 30 June 2010	**–**	**–**	**137,058**	**781**	**12,762**	**6,710**	**157,311**

17. Fixed Assets (continued)

	Buildings	Construction in progress	Plant and machinery	Leasehold improvements	Furniture, office equipment and motor vehicles	Pipelines and trench	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Carrying amount:							
At 30 June 2010	**276,026**	**1,022,917**	**950,523**	**2,257**	**12,392**	**46,775**	**2,310,890**
At 30 June 2009	249,327	575,081	801,577	2,539	12,071	32,725	1,673,320
Analysis of cost or valuation at 30 June 2010							
At cost	**–**	**1,022,917**	**1,087,581**	**3,038**	**25,154**	**53,485**	**2,192,175**
At valuation	**276,026**	**–**	**–**	**–**	**–**	**–**	**276,026**
	276,026	**1,022,917**	**1,087,581**	**3,038**	**25,154**	**53,485**	**2,468,201**
Analysis of cost or valuation at 30 June 2009							
At cost	–	575,081	894,377	3,017	21,222	37,122	1,530,819
At valuation	249,327	–	–	–	–	–	249,327
	249,327	575,081	894,377	3,017	21,222	37,122	1,780,146

At 30 June 2010 the carrying amount of fixed assets pledged as security for the Group's bank loans amounted to approximately HK$368,426,000 (2009: HK$241,397,000).

At 30 June 2010, the Group's buildings were revalued on the depreciated replacement cost basis by Castores Magi (Hong Kong) Limited ("Castores Magi"), independent professionally qualified valuers, at approximately HK$276,026,000 (2009: HK$249,327,000). The resulting revaluation surplus and reversal of revaluation deficit of approximately HK$1,143,000 (2009: HK$5,443,000) and HK$425,000 (2009: HK$1,371,000) has been credited to the fixed asset revaluation reserve as set out in the consolidated statement of changes in equity and profit or loss respectively.

The carrying amount of the Group's buildings would have been approximately HK$235,742,000 (2009: HK$208,639,000) had they been stated at cost less accumulated depreciation and impairment losses.

18. Prepaid Land Lease Payments

The Group's prepaid land lease payments are analysed as follows:

	2010	2009
	HK$'000	HK$'000
In Hong Kong under long leases	**69,858**	70,539
Outside Hong Kong under medium-term leases	**470,292**	475,889
	540,150	546,428

At 30 June 2010 the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans amounted to approximately HK$306,429,000 (2009: HK$85,339,000).

19. Goodwill

	Group	
	2010	2009
	HK$'000	HK$'000
Cost and carrying amount:		
At beginning of year	**123,589**	111,735
Arising on acquisition of subsidiaries	**–**	11,854
At end of year	**123,589**	123,589

19. Goodwill (continued)

Goodwill acquired in business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Vitamin C, glucose and starch		
Mudanjiang Gaoke	**85,685**	85,685
Calcium carbide		
Mudanjiang Daytech Chemical	**26,050**	26,050
Heihe LongJiang Chemical	**11,854**	11,854
	123,589	123,589

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next one (2009: two) year(s) for Vitamin C, glucose and starch CGU and two to three (2009: four to five) years for Calcium carbide CGU, with the residual period using the growth rate of 3.3% (2009: 5.9%) for both CGUs. This rate does not exceed the average long-term growth rate for the relevant markets.

The rates used to discount the forecast cash flows from the Group's manufacture and sale of Vitamin C, glucose and starch activities and Calcium carbide activities are 7.99% (2009: 10.13%), and 9.21% to 9.81% (2009: 9.96% to 11.96%), respectively.

20. Other Intangible Assets

	Exclusive right HK$'000	Trade name HK$'000	Technical know-how HK$'000	Total HK$'000
Cost:				
At 1 July 2008	72,347	33,459	17,366	123,172
Exchange differences	–	–	(38)	(38)
At 30 June 2009 and 1 July 2009	72,347	33,459	17,328	123,134
Exchange differences	–	–	259	259
At 30 June 2010	**72,347**	**33,459**	**17,587**	**123,393**
Accumulated amortisation:				
At 1 July 2008	4,341	2,007	3,797	10,145
Amortisation for the year	2,894	1,339	1,734	5,967
Exchange differences	–	–	(10)	(10)
At 30 June 2009 and 1 July 2009	7,235	3,346	5,521	16,102
Amortisation for the year	2,894	1,339	1,740	5,973
Exchange differences	–	–	101	101
At 30 June 2010	**10,129**	**4,685**	**7,362**	**22,176**
Carrying amount:				
At 30 June 2010	**62,218**	**28,774**	**10,225**	**101,217**
At 30 June 2009	65,112	30,113	11,807	107,032
Remaining amortisation period:	21.5 years	21.5 years	5.25 to 7.17years	

21. Investments in Subsidiaries

	Company	
	2010	2009
	HK$'000	HK$'000
Unlisted investments, at cost	**511,921**	501,722

Particulars of the subsidiaries as at 30 June 2010 are as follows:

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dragon Boom Investments Ltd.	British Virgin Islands ("BVI")	Ordinary US$1	100%	–	Investment holding
Ever Strength Investments Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Gold Capture Investments Inc.	BVI	Ordinary US$1	100%	–	Investment holding
Prosper Path Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Quality Gain Investments Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Better Day Bio-Chem Technology Limited	BVI	Ordinary US$2	100%	–	Investment holding
Better Day Power Limited	BVI	Ordinary US$2	100%	–	Investment holding
Master King Group Ltd.	Hong Kong	Ordinary HK$1	100%	–	Inactive
Better Lion Holdings Limited	BVI	Ordinary US$2	–	100%	Investment holding
Daytech Group Limited	BVI	Ordinary US$2	–	100%	Investment holding
Powerful Rise Group Limited	BVI	Ordinary US$1	–	100%	Inactive
Racing Dragon Group Limited	BVI	Ordinary US$100	–	55%	Investment holding

21. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Mudanjiang BD Power	PRC (note (a))	RMB109,521,929	–	100%	Generation and supply of heat and power
Mudanjiang Daytech Chemical	PRC (note (b))	HK$230,000,000	–	100%	Manufacture and sale of calcium carbide
Mudanjiang Dongbei Chemical	PRC (note (c))	RMB110,910,000	–	63.11%	Manufacture and sale of vinyl acetate
Mudanjiang Dongbei Gaoxin	PRC (note (d))	HK$230,000,000	–	100%	Manufacture and sale of polyvinyl-chloride
Mudanjiang Gaoke	PRC (note (e))	RMB100,000,000	–	100%	Manufacture and sale of Vitamin C, glucose and starch
Heihe LongJiang Chemical	PRC (note (f))	RMB160,598,630	–	55%	Manufacture and sale of calcium carbide, polyvinyl-alcohol and vinyl acetate
China Zenith Construction Materials Limited	Cayman Islands	Ordinary HK$0.01	–	100%	Inactive
STB Company Limited	Hong Kong	Ordinary HK$2	–	100%	Inactive
Success Eagle Investment Limited	Hong Kong	Ordinary HK$1	–	100%	Provision of administrative services
Green Concept Investments Ltd.	Hong Kong	Ordinary HK$1	–	100%	Inactive
大慶高新區東北化工銷售有限公司	PRC (note (g))	RMB500,000	–	63.11%	Sales of vinyl acetate

* Where different

21. Investments in Subsidiaries (continued)

Notes:

(a) Mudanjiang BD Power is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 9 June 2006.

(b) Mudanjiang Daytech Chemical is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 30 December 2006.

(c) Mudanjiang Dongbei Chemical is a Sino-foreign equity joint venture established in the PRC for an operating period of 50 years commencing from the approval date of 27 May 2004.

(d) Mudanjiang Dongbei Gaoxin is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 26 April 2005.

(e) Mudanjiang Gaoke is a wholly foreign-owned enterprise established in the PRC for an operating period of 50 years commencing from the approval date of 1 March 2006.

(f) Heihe LongJiang Chemical is a wholly foreign-owned enterprise established in the PRC for an operating period of 20 years commencing from the approval date of 5 June 2008.

(g) 大慶高新區東北化工銷售有限公司 is a limited liability company established in the PRC with indefinite operating period.

22. Due From/(to) Subsidiaries – Company

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

23. Inventories

	Group	
	2010	2009
	HK$'000	HK$'000
Raw materials	**48,791**	33,334
Work in progress	**7,902**	6,447
Finished goods	**46,899**	22,524
	103,592	62,305

24. Trade Receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 150 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**95,224**	145,071
31 to 60 days	**104,308**	93,243
61 to 90 days	**84,775**	60,647
91 to 120 days	**100,732**	37,992
121 to 150 days	**60,349**	29,013
151 to 180 days	**612**	14,512
181 to 240 days	**697**	8,885
241 to 330 days	**1,512**	1,677
331 to 365 days	**860**	1,157
Over 365 days	**3,342**	43,044
	452,411	435,241

As at 30 June 2010, an allowance was made for estimated irrecoverable trade receivables of approximately HK$6,609,000 (2009: HK$6,146,000).

The reconciliation of allowance for trade receivables:

	Group	
	2010	2009
	HK$'000	HK$'000
At beginning of year	**6,146**	2,397
Allowance made for the year	**827**	4,226
Written off	**(399)**	(475)
Exchange differences	**35**	(2)
At end of year	**6,609**	6,146

24. Trade Receivables (continued)

As of 30 June 2010, trade receivables of approximately HK$9,198,000 (2009: HK$70,792,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Up to 90 days	**461**	995
91 to 180 days	**2,326**	15,034
181 to 365 days	**3,069**	11,719
Over 365 days	**3,342**	43,044
	9,198	70,792

The Group's trade receivables are denominated in RMB.

25. Financial Assets at Fair Value Through Profit or Loss

The Group's financial assets at fair value through profit or loss classified as held for trading are equity securities listed in Hong Kong and stated at their market value.

26. Bank and Cash Balances

As at 30 June 2010, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$10,809,000 (2009: HK$9,634,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27. Share Capital

Shares

	2010	2009
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2009: 10,000,000,000) ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
6,102,331,736 (2009: 3,740,887,824) ordinary shares of HK$0.01 each	**61,023**	37,409

27. Share Capital (continued)

Shares (continued)

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2009 and 2010 is as follows:

	Number of ordinary shares issued	Par value
	'000	HK$'000
At 1 July 2008, 30 June 2009 and 1 July 2009	3,740,888	37,409
Issue of shares on open offer (note (a))	1,870,444	18,704
Placement of new shares (note (b))	440,000	4,400
Exercise of share options (note (c))	51,000	510
At 30 June 2010	**6,102,332**	**61,023**

Notes:

(a) On 19 August 2009, 1,870,443,912 ordinary shares of HK$0.01 each were issued at HK$0.11 per share by way of an open offer on the basis of one offer share for every two shares held. The net proceed of approximately HK$201,310,000 was used to finance the acquisition of fixed assets and as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on that date.

(b) On 25 February 2010, Mr. Chan Yuen Tung, a substantial shareholder and a director of the Company, placed 440,000,000 ordinary shares of HK$0.01 each in the Company to independent third parties at a price of HK$0.2 each. Mr. Chan Yuen Tung then subscribed for a total 440,000,000 new shares of HK$0.01 each in the Company at HK$0.2 per share. The subscription was completed on 2 March 2010. The net proceed of approximately HK$84,389,000 was used as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(c) During the year ended 30 June 2010, the subscription rights attaching to 51,000,000 shares options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$0.164 per share, resulting in the issue of 51,000,000 shares of HK$0.01 each for the total cash consideration of approximately HK$8,364,000.

Warrants

On 9 March 2010, the Company issued warrants at a placing price of HK$0.005 conferring rights to subscribe for 440,000,000 shares of the Company at a subscription price of HK$0.285 per share from the date of issue to 8 March 2011.

No warrants were exercised during the year.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes had been made in the objectives, policies and processes during the two years ended 30 June 2009 and 2010.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group received a report from the share registrars on substantial share interests showing the non-public float and it demonstrated continuing compliance with the 25% limit throughout the year.

28. Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted on 18 November 2002 for a period of 10 years. The purpose of the Scheme is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution to the Group. Under the Scheme, the directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of the offer of grant, which must be a business day; and (iii) the nominal value of the shares. The offer for a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and in any event not later than 10 years from the date of grant of share options, subject to the provisions for early termination thereof.

The maximum number of shares to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of shares of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the extraordinary general meeting held on 18 November 2002.

Share options do not confer rights to the holders to dividends or to vote at shareholders' meetings.

Details of the specific categories of options are as follows:

Grant date	**20 July 2007**	**22 August 2007**	**21 August 2009**
Vesting period (note (a))	20 July 2007 to 23 July 2007	22 August 2007 to 23 August 2007	21 August 2009
Exercise period	24 July 2007 to 23 July 2010	24 August 2007 to 23 August 2010	21 August 2009 to 20 August 2012
Exercise price			
– at date of grant (note (b))	0.582	0.420	0.164
– adjustment upon the completion of the open offer	0.485	0.350	N/A
Price of the Company's shares at the date of grant (note (c))	0.582	0.420	0.164

Notes:

(a) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issue, or other similar changes in the Company's share capital.

(c) The price of the Company's shares disclosed as at the date of the grant of the share options is the higher of the closing price of the shares of the Company on the date of grant of the share options and the average Stock Exchange closing price for the five business days immediately preceding the date of the grant of the share options.

28. Share Option Scheme (continued)

Details of the grantees are as follows:

	Number of share options	
	Employees	**Weighted average exercise price**
Outstanding at 1 July 2008, 30 June 2009 and 1 July 2009	220,900,000	0.483
Granted during the year	205,000,000	0.164
Adjustment upon the completion of the open offer	44,400,900	0.403
Exercised during the year	(51,000,000)	0.164
Outstanding at 30 June 2010	**419,300,900**	**0.315**
Exercisable at 30 June 2010	**419,300,900**	**0.315**
Exercisable at 30 June 2009	220,900,000	0.483

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.248 (2009: HK$Nil). The options outstanding at the end of the year have a weighted average remaining contractual life of 0.95 (2009: 1.11) years and the exercise prices range from HK$0.164 to HK$0.485 (2009: HK$0.42 to HK$0.582).

The aggregate estimated fair value of the options granted during the year ended 30 June 2010 calculated using the Black-Scholes option pricing model was approximately HK$10,199,000 (2009: HK$Nil). The inputs into the model were as follows:

	Share options granted on 21 August 2009
Option value	HK$0.050
Total fair value	HK$10,199,000
Exercise price	HK$0.164
Expected volatility	68.1%
Risk-free interest rate	0.33%
Expected life of options	1.4 years
Dividend yield	0%

The expected volatility was determined by calculating the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

29. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2008	1,142,886	17,008	–	162,561	1,322,455
Loss for the year	–	–	–	(44,615)	(44,615)
At 30 June 2009 and 1 July 2009	1,142,886	17,008	–	117,946	1,277,840
Loss for the year	–	–	–	(10,699)	(10,699)
Issue of shares	262,595	–	–	–	262,595
Share option benefits					
– Grant of share options	–	10,199	–	–	10,199
– Exercise of share options	7,854	–	–	–	7,854
– Transfer to share premium	2,537	(2,537)	–	–	–
Issue of warrants	–	–	2,112	–	2,112
At 30 June 2010	**1,415,872**	**24,670**	**2,112**	**107,247**	**1,549,901**

(c) Nature and purpose of reserves of the Group

(i) Share premium account

The share premium account includes (i) the premium arising from the issue of shares; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation for the purpose of the listing of the Company's shares on the Stock Exchange, over the nominal value of the shares of the Company issued in exchange therefor.

(ii) Fixed asset revaluation reserve

Fixed asset revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for buildings in note 3(d) to the financial statements.

29. Reserves (continued)

(c) Nature and purpose of reserves of the Group (continued)

(iii) Share option reserve

Share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees and business associates of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(p) to the financial statements.

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the financial statements.

(v) Warrant reserve

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. Warrant reserve will be transferred to share premium account upon the exercise of the warrants or released to retained profits if the warrants remain unexercised at the expiry date.

30. Deferred Tax

The movement on deferred tax assets/(liabilities) account is as follow:

	Group	
	2010	2009
	HK$'000	HK$'000
At beginning of year	**(159,049)**	(137,845)
Credit to profit or loss	**6,215**	13,669
Acquisition of subsidiaries	**–**	(33,409)
Charge to equity	**(409)**	(1,353)
Exchange differences	**(1,407)**	(111)
At end of year	**(154,650)**	(159,049)

30. Deferred Tax (continued)

The following are the major deferred tax assets/(liabilities) recognised by the Group, and the movements thereon, during the current and prior reporting periods.

Deferred tax assets	**Decelerated tax depreciation**	**Other temporary differences**	**Total**
	HK$000	HK$000	HK$000
At 1 July 2008	1,201	2,108	3,309
Charge to profit or loss	(686)	(1,023)	(1,709)
Exchange differences	(2)	(4)	(6)
At 30 June 2009 and 1 July 2009	513	1,081	1,594
Charge to profit or loss	(461)	(87)	(548)
Exchange differences	3	16	19
At 30 June 2010	**55**	**1,010**	**1,065**

Deferred tax liabilities	**Decelerated tax depreciation**	**Other temporary differences**	**Revaluation of buildings and prepaid land lease payments**	**Total**
	HK$000	HK$'000	HK$000	HK$000
At 1 July 2008	6,570	1,795	(149,519)	(141,154)
Credit to profit or loss	4,100	10,318	960	15,378
Acquisition of subsidiaries	–	–	(33,409)	(33,409)
Charge to equity	–	–	(1,353)	(1,353)
Exchange differences	(5)	(10)	(90)	(105)
At 30 June 2009 and 1 July 2009	10,665	12,103	(183,411)	(160,643)
Credit to profit or loss	2,105	3,498	1,160	6,763
Charge to equity	–	–	(409)	(409)
Exchange differences	198	188	(1,812)	(1,426)
At 30 June 2010	**12,968**	**15,789**	**(184,472)**	**(155,715)**

The deferred tax liabilities in relation to revaluation of buildings have been charged to equity directly.

31. Trade Payables

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**21,326**	10,035
31 to 60 days	**11,668**	14,216
61 to 90 days	**6,707**	4,424
91 to 120 days	**7,185**	3,626
121 to 365 days	**22,886**	5,495
Over 365 days	**9,798**	6,025
	79,570	43,821

The Group's trade payables are denominated in RMB.

32. Due to a Director and a Non-Controlling Shareholder of a Subsidiary

The amounts due to a director and a non-controlling shareholder of a subsidiary are unsecured, interest-free and have no fixed terms of repayment.

33. BANK LOANS

The Group's bank loans are repayable as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**58,480**	57,606
In the second year	**3,640**	2,158
In the third to fifth years inclusive	**120,404**	6,754
After five years	**34,157**	36,504
	216,681	103,022
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(58,480)**	(57,606)
	158,201	45,416

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2010 HK$'000	2009 HK$'000
Hong Kong dollars	**45,417**	47,530
RMB	**171,264**	55,492
	216,681	103,022

Bank loans of approximately HK$56,321,000 (2009: HK$55,492,000) are arranged at fixed interest rate of 5.841% (2009: 8.217%) p.a. and exposes the Group to fair value interest rate risk. Bank loans of approximately HK$160,360,000 (2009: HK$47,530,000) are arranged at floating rate of 2.10% to 5.76% (2009: 2.10%) p.a., thus exposing the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets and prepaid land lease payments.

34. Capital Commitments

The Group's capital commitments at the end of the reporting period are as follows:

	2010 HK$'000	2009 HK$'000
Buildings and construction in progress:		
Authorised but not contracted for	–	91,522
Contracted but not provided for	1,287,849	290,115
	1,287,849	381,637

The Company did not have any capital commitments as at 30 June 2010 (2009: Nil).

35. Lease Commitments

At 30 June 2010 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Within one year	1,749	1,352
In the second to fifth years inclusive	1,166	–
	2,915	1,352

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for lease terms ranging from 2 to 3 years and rentals are fixed over the lease terms and do not include contingent rentals.

The Company did not have any operating lease arrangements as at 30 June 2010 (2009: Nil).

36. Related Party Transactions

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2010 HK$'000	2009 HK$'000
Motor vehicles purchased from directors	–	538
Motor vehicle sold to a director	–	227

37. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 September 2010.